

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Midland, Michigan

Comprehensive Annual Financial Report with Supplemental Information For the Fiscal Year Ended June 30, 2007

Prepared by the Finance Department

City of Midland, Michigan

About the Cover

Experience the big city choices wrapped in small city charm that Downtown Midland offers. Explore a diverse mix of quaint shops, interesting eateries, unique parks, and bustling businesses located in the heart of Michigan. It's a place for everyone to relax and have fun - from outdoor enthusiasts, to art lovers, to lovers of fine foods.

There's something for every season in Downtown Midland with community events planned throughout the year. Downtown Midland is listed as a Cool City Neighborhood, a Michigan Main Street, and along with the greater Midland Community, won the 100 Best Communities for Young People Award.

For more information on businesses located in Downtown Midland, upcoming events, job opportunities, volunteer opportunities, and space available downtown visit www.downtownmidland.com.

City of Midland, Michigan

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City of Midland, Michigan

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December 7, 2007

Honorable Mayor and City Councilmen:

The *Comprehensive Annual Financial Report* (CAFR) of the City of Midland for the year ended June 30, 2007 is hereby submitted. The report represents a comprehensive and detailed picture of our financial transactions during fiscal year 2006-07, and the financial condition of the various funds as of June 30, 2007. The City is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the data as presented is accurate in all material respects and reported in a manner that fairly sets forth the financial position and results of operations of the various funds of the City.

The CAFR was prepared to meet the needs of a broad spectrum of financial statement readers and is divided into the following major sections:

Introductory Section: This section introduces the reader to the City of Midland and to this report. Included are this transmittal letter with continuing disclosure reporting enhancements, the City's organizational chart, and a list of principal officials.

Financial Section: The independent auditor's report, management's discussion and analysis letter, government-wide financial statements, combined fund financial statements (together with reconciliations between the government-wide governmental activities and the fund-based governmental funds), and notes to the financial statements are included here.

These are the City's basic financial statements and provide an overview for readers who require less detailed information than is contained in the balance of the report. In addition, required supplementary information and other supplementary information are provided for those readers who require more detailed information.

Statistical Section: Although this section contains substantial financial data, these schedules differ from financial statements in that they present some non-accounting data, cover more than the current year, and are designed to reflect social and economic data, financial trends, and the fiscal capabilities of the City.

Governmental accounting standards require that management provide a narrative introduction, overview, and analysis to accompany these financial statements in the form of the management's discussion and analysis letter (MD&A).

This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Midland's MD&A can be found immediately following the independent auditor's report.

Profile of the City

The City of Midland was incorporated in 1887. Located near the center of the eastern portion of Michigan's Lower Peninsula, approximately 120 miles northwest of Detroit, the City currently occupies a land area of 35.7 square miles and, according to the 2000 Census, serves a population of 41,685. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered to extend its corporate limits by annexation, which occurs periodically in accordance with state statute and the terms of urban cooperation agreements between the City and its surrounding townships.

The City Charter calls for a council-manager form of government. The governing body consists of five council members who are elected on a non-partisan basis, one from each of the City's five wards who in turn choose one of their number to serve as mayor. The City Manager and City Attorney are appointed independently by the City Council. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing heads of the various departments and all other City employees. The City Attorney oversees all legal matters of the City, including review of contracts and legal documents. An organization chart is included to better illustrate the City's governmental structure.

The City provides a full range of services including police and fire protection, community planning and zoning, building inspections, code enforcement, library, sanitation, water and wastewater treatment, construction and maintenance of highways, streets and infrastructure, recreation programs, parks, public transportation, and cultural facilities.

Economic Condition and Outlook

The economic environment of the City has remained steady, despite the difficult economic conditions that the state of Michigan and neighboring communities face. Historically, the City has been recognized as a community that offers its residents many economic, cultural, recreational, and educational benefits. Today these benefits remain as promising as ever, thanks in large part to the growth the area continues to experience.

Much of past economic development has focused on the commercial and industrial sector's growth through The Dow Chemical Company and Dow Corning Corporation. While both companies are still the major influences, with enough undeveloped land within their fences to expand further, there has also been an increased effort spent on attracting and accommodating other firms. This emphasis upon diversifying the economic base reflects a broader development strategy, which is expected to continue into the future.

Tax base and/or employment in the City is also provided by a cogeneration power plant facility, small-to-medium manufacturing companies, retail and service establishments, a regional health care organization, state and local educational institutions, financial institutions, and local government. The City's June 2007 unemployment rate of 4.5% compares favorably to the state's average rate of 7.4%, as well as with the national average of 4.7%.

The largest single revenue source is property taxes. The City's tax base has shown steady annual growth historically, averaging 2% since 1999. The City's tax base is approximately 39% residential and 61% commercial, industrial and utility. The

commercial, industrial and utility sector is comprised of administrative, research and production facilities of two large chemical companies, a cogeneration power plant, and a variety of other industries and businesses. The three largest industrial/utility taxpayers make up nearly 45% of the City's tax base. The City Charter allows a property tax rate of up to 18 mills, which is then reduced by the Headlee Amendment to 17.87 mills. During the 2006-07 fiscal year, the City levied only 11.87 of its authorized mills. Under applicable state statutes, the City is also authorized to levy up to one additional mill for libraries and up to 3 additional mills for solid waste management.

In 1997, the City's three largest taxpayers filed property assessment appeals, involving approximately 50% of the City's total tax base. The largest of the three appeals remains partially unsettled. Note 17 of the notes to financial statements provides more historical and current information on the City's tax appeals.

It is the City's practice to plan capital projects on a multi-year basis, in accordance with the City's Master Plan. Typically this allows the City to look ahead and budget for the financing of these projects through existing sources of revenue, including contributions from the community and area foundations. No capital projects are currently planned during the next few years that will cause the City to deviate from this practice and consider outside financing.

Significant Initiatives, Events, and Accomplishments

County of Midland Water District No. 1 Water Service Agreement Renewal: The City renewed the wholesale water service agreement originally executed in 1969 for a term of forty-five (45) years. The agreement includes the expansion of the district from two townships and a village to five townships and a village. The agreement also restricts the number of connections for each jurisdiction, provides for an annual rate adjustment, and requires the payment of a capital charge to the City for each new connection.

Non-motorized Trails: The City partnered with area foundations and the State of Michigan to add 3.5 miles of non-motorized trails within the City, bringing the total to over nine miles. These winding asphalt trails are typically bordered by benches, various types of landscaping, or other natural surroundings, and enhance the City's existing network of sidewalks.

Citizens Academy: In January 2007, the City launched its first-ever Citizens Academy. Twenty-five applicants were selected to participate in the program designed to give citizen participants an up-close and personal look at how city government functions and helps to shape the community.

Electronic Payment: During the year, the City began offering citizens the ability to pay their water/wastewater bills or property tax bills via bank drafting. They can also pay their water/wastewater bills or parking tickets by credit card or electronic check via the City's web site. These programs have been very well received.

Eastman Corridor Study: In order to alleviate congestion along one of the busiest corridors in Midland, the City contracted a traffic study and sought citizen input to help determine a solution to the problem. The City has begun acquiring right of ways needed to widen Eastman where it intersects with Airport and Wackerly roads. This project will likely to be completed in 2011.

Minor League Baseball: Minor league baseball moved to Midland in 2007. The Great Lakes Loons opened their first season in a newly constructed stadium, the Dow Diamond, in April 2007. Brought to the area by the Michigan Baseball Foundation, the Loons offer family-friendly entertainment for the entire mid-Michigan region. The new development has had a positive impact on area businesses, and is expected to continue to do so for many years to come.

Geographic Information System: During this fiscal year, the City completed year two of a three-year phased implementation plan to create an integrated, enterprise-wide Geographic Information Systems (GIS) program. GIS will allow its users to request information, such as the location of floodplains, the location of specific water and wastewater lines, or all commercial zoned properties in the City to be displayed in an easy-to-read graphical format on a computer.

Financial Information

Internal Controls: Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal structure is designed to provide reasonable, but not absolute, assurance that these objectives are met.

The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budget Controls: The annual budget serves as the foundation for the City's financial planning and control. In April of each year, the City Manager presents a proposed budget to the City Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than the fourth Monday in May. The Council approves appropriations on the functional basis, which is the legal level of control.

Expenditures in excess of departmental appropriations are a violation of state law. Amounts not spent by the end of the fiscal year lapse, and require City Council approval to re-appropriate into the next year.

Cash Management Policies and Practices: Cash temporarily idle during the year was invested, as authorized by the City's formal investment policy and Michigan Public Act 20 of 1943, as amended, in certificates of deposit, obligations of the U.S. Treasury, commercial paper, repurchase agreements, and certain investment pools. Maturities of the investments range from 30 days to 18 months, with an average maturity of approximately 90 days. The pension trust fund portfolio also includes common stocks, international stocks, corporate bonds, collateralized mortgage obligations, and asset-backed securities. The City's average yield on investments was 5.27%, and 17% for the pension trust fund. Investment income includes appreciation in the fair value of investments. Changes in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

Risk Management: At the beginning of this fiscal year, the City entered into a public entity risk pool with other Michigan units of government by joining the Michigan Municipal League Liability and Property Pool for its general liability and property coverage.

For employee injury claims, the City also participates in a public entity risk pool with other Michigan units of government, the Michigan Municipal Workers' Compensation Pool.

Police and Fire Pension - Defined Benefit Plan: The City sponsors a single-employer, defined-benefit pension plan for its police and fire employees. The City fully funds each year's annual required contribution to the pension plan as determined by an independent actuary. The most recent actuarial valuation, as of December 31, 2006, reports this plan to be 91.6% funded. The remaining unfunded amount is being systematically amortized over 19 years as part of the annual required contribution calculation by the actuary.

MERS - Defined Benefit Plan: The City also provides pension benefits that cover substantially all employees hired before July 1, 2005, other than police and fire employees. These benefits are provided through a state-wide plan managed by the Municipal Employees' Retirement System of Michigan (MERS). Except for contributions from unclassified employees, who contribute 5% of their wages annually, the City fully funds each year's annual required contribution to the pension plan as determined by an independent actuary. The most recent actuarial valuation, as of December 31, 2006, reports this plan to be 75% funded. Effective July 1, 2005, this plan was closed to new employees.

MERS - Defined Contribution Plan: This plan was adopted for non-police and fire employees, hired on July 1, 2005 or later. This plan requires the City to contribute to the plan an amount equal to 5% of each participant's gross earnings.

ICMA - Deferred Compensation Plan: The City participates in a deferred compensation plan administered by International City/County Management Association (ICMA) for all eligible employees hired on July 1, 2005 or later, except police and fire employees. The City will match 100% of a participant's contribution, up to a maximum of 7% of the participant's gross earnings.

Postemployment Health Benefits: The City provides postemployment healthcare benefits for police and fire employees, and certain other employees and their dependents. Except for police and fire employees, this benefit program was closed to new employees hired after June 30, 2005. As of the end of the current fiscal year, there were 317 retired employees receiving these benefits, which are financed on both a "pay-as-you-go" and "prefunding" basis. GAAP does not yet require the City to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

MERS - Health Savings Account: This plan is for substantially all employees hired on July 1, 2005 or later, except police and fire employees. The City contributes an amount equal to 2% of the participant's wages into a Health Savings Account administered by MERS.

Additional information on the City's pension arrangements and postemployment benefits can be found in Notes 11 and 12 in the notes to the financial statements.

Independent Audit

The City Charter and state statutes require an annual audit of all accounts of the City by certified public accountants. The accounting firm of Plante & Moran was selected by the City Council. The City received an unqualified opinion from Plante & Moran, which is the best opinion that an organization can receive on its financial statements. Additionally, during the current year, an audit was performed in accordance with the requirements of the Single Audit Act Amendments of 1996. Information and auditor's findings related to the single audit are published as a separate report.

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Midland for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the 18th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, which satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

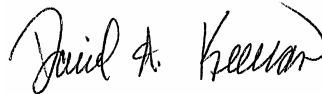
The preparation of this report was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the Department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, the preparation of this document and the accomplishments reported therein would not have been possible without the leadership and support of the Midland City Council.

Respectfully submitted,



Jon J. Lynch
City Manager



David A. Keenan
Director of Fiscal Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Midland
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



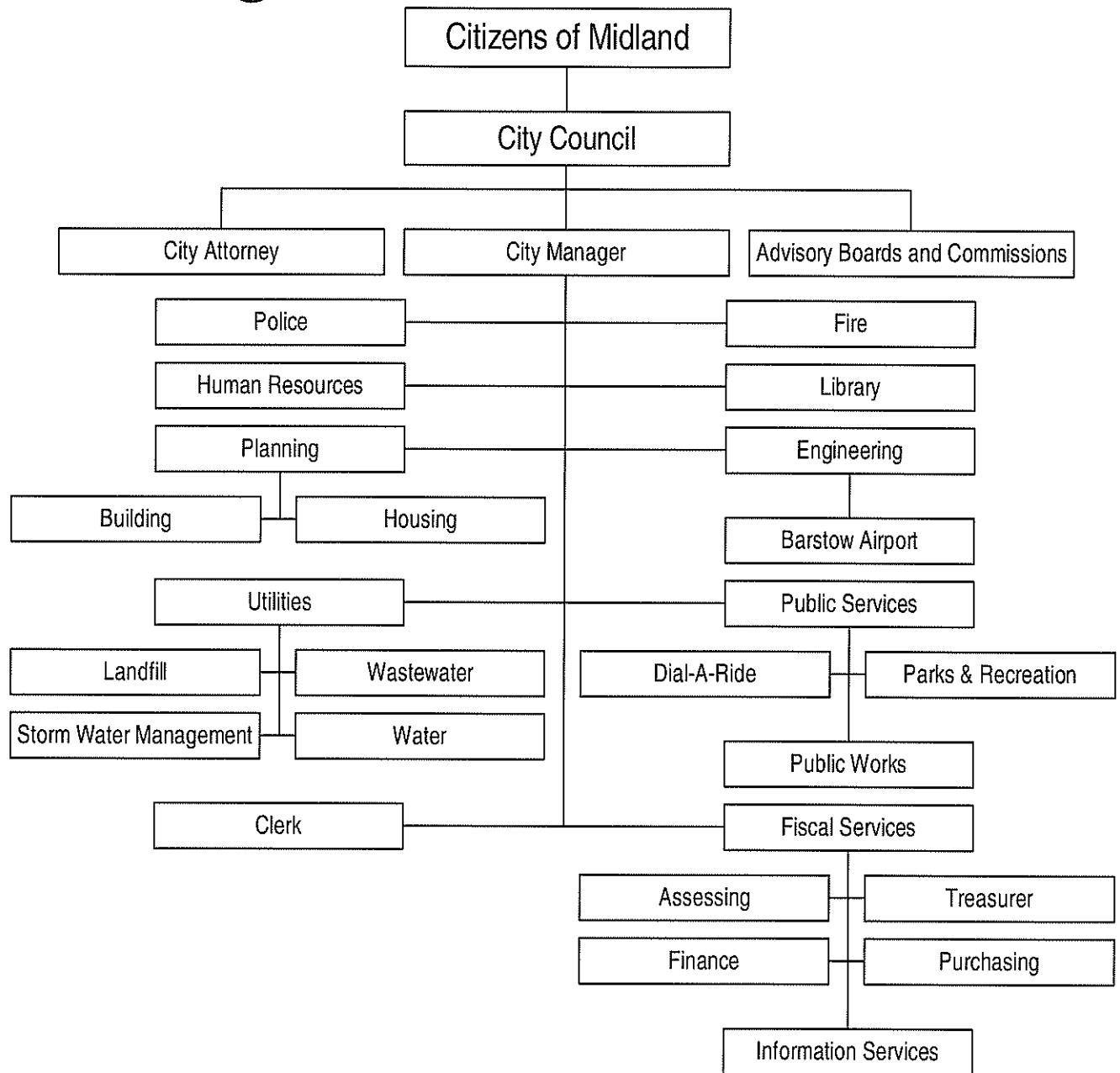
A handwritten signature in black ink, likely of the President of the GFOA, is positioned above the title "President".

President

A handwritten signature in black ink, reading "Jeffrey R. Emer", is positioned above the title "Executive Director".

Executive Director

City of Midland, Michigan Organizational Chart



City of Midland, Michigan

List of Principal Officials June 30, 2007

CITY COUNCIL

Ward I	Thomas W. Adams
Ward II	James S. Myers
Ward III	Hollis H. McKeag
Mayor - Ward IV	Bruce A. Johnson
Ward V	Joseph M. Rokosz

ADMINISTRATIVE STAFF

City Manager	Jon J. Lynch
City Attorney	James O. Branson, III
Assistant City Manager	John E. Duso
City Assessor	Reid A. Duford
City Clerk	Selina M. Tisdale
City Controller	Margaret A. Maday
City Engineer	Brian P. McManus
City Treasurer	Sandra K. Marshall
Chief Building Inspector	Lynn A. LaBrecque
Fiscal Services Director	David A. Keenan
Fire Chief	Leonardo Garcia
Human Resources Director	Paula J. Whittington
Information Services Manager	Tadd H. Underhill
Library Director	Melissa J. Barnard
Police Chief	James Q. St. Louis
Public Services Director	Martin W. McGuire
Purchasing Agent	Michael L. Meyer
Utilities Director	Noel D. Bush



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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Midland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midland, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Midland, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midland, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Midland, Michigan's basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and retirement systems schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.



To the Honorable Mayor and City Council
City of Midland, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007 on our consideration of the City of Midland, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 18 to the financial statements, the City changed its method of accounting for trust deeds and retroactively recorded infrastructure as allowed for under GASB Statement 34.

Plante & Moreau, PLLC

December 7, 2007

City of Midland, Michigan

Management's Discussion and Analysis

CITY OF MIDLAND, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS Year ended June 30, 2007

As management of the City of Midland (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, the financial statements, and the notes to the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$217,124,189. Of this amount, \$36,313,018 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$8,073,174 during the fiscal year. Governmental activities accounted for \$2,952,639 of this increase, while business-type activities accounted for \$5,120,535. The increase was mostly due to positive operating results in each of the City's three largest enterprise funds.
- At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$46,442,752, a decrease of \$5,724,326 in comparison with the prior year. Approximately 69 percent of this total, or \$31,849,950, is reserved for various purposes. Of the remaining unreserved balance, \$4,631,822 is designated for specific purposes, leaving an unreserved, undesignated balance of \$9,960,979.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7,386,735, or 16 percent of total General Fund expenditures (including transfers).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works (highways and streets and other services), community development, sanitation, parks and recreation, library, airport, transportation, tax appeal defense, interest and agent fees, and other functions. The business-type activities of the City include a regional water distribution system, a wastewater collection system, a sanitary landfill, a golf course, a civic arena, parking, and real estate rental (primarily two senior citizen housing facilities).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state or local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Major Street Fund, both of which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for each of its governmental funds, except for the Cemetery and Capital Projects Funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

Proprietary Funds - The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements. The City uses enterprise funds to account for water distribution, wastewater collection, sanitary landfill operations, civic arena operations, downtown parking, senior citizen housing, and golf course operations. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses Internal Service Funds to account for equipment and fleet operations, data processing services, geographic information system services, general and liability insurance, special assessment project funding, and bus garage operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater, Real Estate Rental, Sanitary Landfill, and Civic Arena Funds, which are considered to be major funds of the City. The remaining enterprise funds and the Internal Service Funds are each combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the remaining enterprise funds and the Internal Service Funds is provided in the form of combining statements elsewhere in this report.

Fiduciary Funds - Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, and Internal Services Funds are presented immediately following the required supplementary information.

Governmental-wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$217,124,189 at the close of the most recent fiscal year.

The largest portion of the City's net assets (78 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources need to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (5 percent) represents resources that are subject to external restrictions on how they are to be used. The remaining balance of unrestricted net assets (\$36,313,018) may be used to meet the government's ongoing obligations to citizens and creditors.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

City of Midland's Net Assets (in 1,000s of dollars)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 56,965	\$ 62,766	\$ 34,038	\$ 32,099	\$ 91,003	\$ 94,865
Capital assets	81,625	48,552	113,813	113,263	195,438	161,815
Total assets	138,590	111,318	147,851	145,362	286,441	256,680
Liabilities						
Current liabilities	21,084	26,311	4,738	4,352	25,822	30,663
Long-term liabilities	18,404	15,412	25,091	28,109	43,495	43,521
Total liabilities	39,488	41,723	29,829	32,461	69,317	74,184
Net Assets						
Invested in capital assets -						
Net of related debt	80,360	47,046	89,720	86,214	170,080	133,260
Restricted	9,512	11,499	1,219	1,219	10,731	12,718
Unrestricted	9,230	11,050	27,083	25,468	36,313	36,518
Total net assets	\$ 99,102	\$ 69,595	\$ 118,022	\$ 112,901	\$ 217,124	\$ 182,496

Statement of Activities

The government's total net assets increased by \$8,073,174 during the current fiscal year. Governmental activities accounted for \$2,952,639 of this increase, while business-type activities accounted for \$5,120,535.

Governmental Activities

As mentioned above, governmental activities increased the City's net assets by \$2,952,639, compared to an increase of \$706,509 for 2005-2006. Key elements of this change follow:

- A \$2,457,987 reduction in the transfer of assets to business-type activities, with the largest contributor of this being last year's \$2 million transfer of the Civic Arena from governmental activities to business-type activities
- Net expense for all governmental activities increased over last year by \$6,553,153. The largest contributor to this increase was tax appeal related expenditures, which increased by \$6,167,756 compared to 2005-2006, due to the current year settlement refund paid to the Dow Chemical Corporation. There is more discussion on the tax appeals in Note 17 of the notes to financial statements.
- An increase in general revenue of \$6,341,296, mostly composed of additional property tax revenue from the 2.31 millage increase and higher investment earnings. The property tax millage rates for 2006 were artificially low due to the City's returning 2.6 mills of tax appeal reserves to citizens.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

In the following table, for 2006, the "other functions" expenditure included airport activities and several other expenditures, totaling approximately \$4.6 million. For 2007, all expenditures, except airport activities, have been allocated to other governmental functions. The most notable impact of this reclassification to 2007 is approximately \$1.4 million of additional public safety expense, and \$1 million of additional public works, when compared to 2006.

City of Midland Changes in Net Assets (in 1,000s of dollars)						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 3,419	\$ 3,246	\$ 23,732	\$ 21,619	\$ 27,151	\$ 24,865
Operating grants and contributions	5,693	5,455	2,359	-	8,052	5,455
Capital grants and contributions	3,591	2,035	891	1,458	4,482	3,493
General revenue:						
Property taxes	33,731	27,672	-	-	33,731	27,672
Intergovernmental	3,532	3,667	-	-	3,532	3,667
Investment earnings	3,389	2,947	915	1,082	4,304	4,029
Other revenue	22	46	164	18	186	64
Total revenue	53,377	45,068	28,061	24,177	81,438	69,245
Program Expenses						
General government	4,196	4,099	-	-	4,196	4,099
Public safety	13,532	11,684	-	-	13,532	11,684
Public works	9,917	6,476	-	-	9,917	6,476
Community development	972	643	-	-	972	643
Sanitation	2,450	2,368	-	-	2,450	2,368
Parks and recreation	3,829	3,546	-	-	3,829	3,546
Library	4,389	3,819	-	-	4,389	3,819
Transportation	1,754	1,698	-	-	1,754	1,698
Tax appeal defense	8,145	1,977	-	-	8,145	1,977
Airport/other functions	292	4,640	-	-	292	4,640
Interest on long-term debt	9	13	-	-	9	13
Water	-	-	8,996	8,992	8,996	8,992
Wastewater	-	-	5,839	5,157	5,839	5,157
Landfill	-	-	2,748	2,411	2,748	2,411
Golf course	-	-	1,055	1,019	1,055	1,019
Parking system	-	-	183	147	183	147
Real estate rental	-	-	3,312	3,119	3,312	3,119
Civic arena	-	-	1,748	1,489	1,748	1,489
Total program expenses	49,485	40,963	23,881	22,334	73,365	63,297
Increase in Net Assets Before Transfers	3,892	4,105	4,180	1,843	8,073	5,949
Transfers	(940)	(3,398)	940	3,398	-	-
Change in Net Assets	2,952	707	5,120	5,241	8,073	5,949
Net Assets - Beginning of year	96,150	68,888	112,901	107,660	209,051	176,548
Net Assets - End of year	\$ 99,102	\$ 69,595	\$ 118,021	\$ 112,901	\$ 217,123	\$ 182,497

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

Business-type activities increased the City's net assets by \$5,120,535. Key elements follow:

- The Civic Arena Fund received approximately \$1.9 million from area foundations to help repay construction related to the recent construction of the facility.
- The Landfill Fund received approximately \$1.8 million of unanticipated revenue from the disposal of demolition and contaminated soil.
- The Water Fund's net assets increased by approximately \$1.2 million. This is consistent with the fund's business plan to accumulate funding for future capital expenditures.

Financial Analysis of the Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$46,442,752, a decrease of \$5,724,326 from the prior year. Approximately 31 percent of this total amount (\$14,592,802) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to a variety of restricted purposes, with the largest reserve being for tax appeals (\$24,235,305). See Note 17 in the notes to the financial statements section of this report for more information on the tax appeals.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7,386,734, or 16 percent of total General Fund expenditures and transfers out. The fund balance of the City's General Fund decreased by \$4,155,448 during the current fiscal year. This is mainly due to a reduction in the fund balance tax appeal reserve, as discussed in Note 17 of the notes to financial statements.

The Major Street Fund was also a major fund of the City. At the end of the current fiscal year, its unreserved fund balance was \$3,928,580. Its fund balance decreased by \$1,345,806, resulting from the expending of funds on many projects completed during the year.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The enterprise funds operations for the current year resulted in an increase in net assets of \$5,515,142. The Water, Sanitary Landfill, and Civic Arena Funds had increases of \$1,153,194, \$2,766,208, and \$1,411,500, respectively. (See "business-type activities" section of this report for explanation of these increases.) The Real Estate Rental Fund had a planned decrease of \$331,414. The Real Estate Rental Fund is comprised mainly of two senior housing facilities. The annual operating plans for these facilities set revenue rates to cover all annual operating costs. They do not provide excess revenue to contribute to a sinking fund for facility replacement. As such, this fund typically shows an annual reduction to net assets in an amount similar to the depreciation expense for that year. The final major business-type fund, the Wastewater Fund, had a \$141,831 increase in net assets for the year.

General Fund Budgetary Highlights

During the year, there was an increase of \$9,893,198 in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$1,648,171 of additional appropriations to encumber items from the 2005-2006 fiscal year into 2006-2007 fiscal year
- \$9,000,926 of additional appropriations for the December 2006 tax appeal settlement with Dow Chemical. See Note 17 of the notes to financial statements.
- \$498,355 of accumulated METRO funds were allocated and distributed to the Major Street and Local Street maintenance funds.
- The annual, mid-year, detail analysis of all expenditures identified approximately \$1.2 million of appropriations that would no longer be required during the current year. Appropriations were reduced accordingly.

The increase was possible because (a) the encumbrances were fully funded in the prior year so the unspent dollars resulted in a higher available beginning fund balance; (b) the tax appeal settlement was prefunded in prior years, with the monies being held in a fund balance reserve for tax appeal refunds; (c) the METRO funds had been collected in prior years and held in the General Fund until they could be analyzed and distributed; and (d) investments performed better than expected during the year, providing additional revenue.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007 amounts to \$195,437,176 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, systems, machinery and equipment, streets, bridges, sidewalks, and library circulation materials. Notes 1 and 5 in the notes to financial statements provide additional information regarding the City's capital assets.

City of Midland Capital Assets
(in 1,000s of dollars)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 5,075	\$ 4,897	\$ 2,379	\$ 2,317	\$ 7,454	\$ 7,214
Construction in progress	4,136	4,565	2,383	1,290	6,519	5,855
Assets being depreciated, net of accumulated depreciation	72,413	66,244	109,051	109,656	181,464	175,900
Total	\$ 81,624	\$ 75,706	\$ 113,813	\$ 113,263	\$ 195,437	\$ 188,969

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$24,192,714. Of this amount, \$20,727,714 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt is backed solely by specified revenue sources.

City of Midland Outstanding Debt
General Obligation and Revenue Bonds
(in 1,000s of dollars)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 100	\$ 175	\$ 20,628	\$ 21,811	\$ 20,728	\$ 21,986
Revenue bonds	-	-	3,465	4,620	3,465	4,620
Total	\$ 100	\$ 175	\$ 24,093	\$ 26,431	\$ 24,193	\$ 26,606

The City maintains an AA rating with Standard and Poor's and an A1 rating with Moody's for the issuance of general obligation debt.

State statutes limit the amount of general obligation debt a government entity may issue to 10 percent of its total equalized valuation. Currently, 10 percent of equalized valuation is approximately \$284 million. Notes 1 and 9 in the notes to financial statements provide additional information regarding the City's long-term debt.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The State of Michigan continues to struggle economically. The City's budget for 2007-2008 includes conservative forecasts for state-shared revenue, expecting to receive approximately \$1,000,000 less than in 2000-2001.

An additional 1.34 mills will be levied for the property tax appeal reserve, causing the total millage to increase to 12.24 mills. See Note 17 for more discussion on the tax appeal reserve.

Water and sewer rates will increase by 4 percent and 5 percent, respectively, to keep pace with inflation and provide adequate funding for long-range capital planning.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Finance Department at the Midland City Hall, 333 W. Ellsworth Street, Midland, MI 48640. Finance Department staff can be reached at 989-837-3322 or at cityhall@midland-mi.org. Additional information can be obtained at the City's website, www.midland-mi.org.

City of Midland, Michigan

Statement of Net Assets June 30, 2007

	Primary Government		
	Governmental		
	Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 54,597,582	\$ 14,735,017	\$ 69,332,599
Receivables - Net of allowances for uncollectibles:			
Property taxes	17,751	-	17,751
Trust deeds	1,459,723	-	1,459,723
Accounts and contracts	579,989	2,920,087	3,500,076
Special assessments - Short-term	66,958	-	66,958
Accrued interest	191,789	51,069	242,858
Internal balances	(3,979,510)	3,979,510	-
Due from other governments	2,004,129	-	2,004,129
Inventories	749,667	601,850	1,351,517
Prepaid items	703,437	-	703,437
Restricted assets (Note 6)	-	3,717,451	3,717,451
Property, plant, and equipment - Net of accumulated depreciation (Note 5)	72,413,087	109,050,713	181,463,800
Property, plant, and equipment not depreciated (Note 5)	9,211,491	4,761,885	13,973,376
Special assessments - Long-term	262,859	-	262,859
Investment in joint venture (Note 1)	311,588	7,954,905	8,266,493
Other property and investments	-	78,209	78,209
Total assets	138,590,540	147,850,696	286,441,236
Liabilities			
Accounts payable	2,477,538	1,471,585	3,949,123
Accrued salaries and wages	611,698	142,327	754,025
Due to other governments	-	10,963	10,963
Deposits	75,803	68,022	143,825
Unearned revenue (Note 7)	1,406,703	-	1,406,703
Payable from restricted assets:			
Accrued interest	-	186,486	186,486
Current portion - Bonds payable (Note 9)	-	1,970,000	1,970,000
Guarantee deposits	-	54,125	54,125
Noncurrent liabilities (Note 9):			
Due within one year	16,512,486	834,074	17,346,560
Due in more than one year	18,403,982	25,091,255	43,495,237
Total liabilities	39,488,210	29,828,837	69,317,047
Net Assets			
Invested in capital assets - Net of related debt	80,360,355	89,719,884	170,080,239
Restricted for:			
Highway and streets	5,998,528	-	5,998,528
Cemetery operations	1,649,734	-	1,649,734
Federal expenditures	113,236	-	113,236
Debt service	9,331	1,219,000	1,228,331
Capital projects	366,429	-	366,429
Downtown Development Authority	779,379	-	779,379
Midland housing projects	595,295	-	595,295
Unrestricted	9,230,043	27,082,975	36,313,018
Total net assets	\$ 99,102,330	\$ 118,021,859	\$ 217,124,189

City of Midland, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,195,610	\$ 611,934	\$ 135,669	\$ 22,632
Public safety	13,532,496	690,268	42,469	-
Public works	9,917,048	535,549	4,230,316	2,453,975
Community development	972,214	31,930	221,806	-
Sanitation	2,449,784	172,649	-	-
Parks and recreation	3,828,814	219,964	-	646,445
Library	4,389,127	755,214	147,905	-
Airport	292,130	186,586	-	302,148
Transportation	1,753,572	139,091	915,123	165,853
Tax roll adjustment	7,248,312	-	-	-
Tax appeal defense	896,490	-	-	-
Other functions	-	75,724	-	-
Interest and fiscal agent fees	8,975	-	-	-
Total governmental activities	49,484,572	3,418,909	5,693,288	3,591,053
Business-type activities:				
Water	8,995,726	9,142,372	-	635,712
Wastewater	5,838,660	4,683,014	-	255,600
Landfill	2,747,801	5,068,645	-	-
Golf course	1,055,353	936,218	499,646	-
Parking system	182,652	87,495	-	-
Real estate rental	3,311,752	2,691,739	-	-
Civic arena	1,748,333	1,122,489	1,859,744	-
Total business-type activities	23,880,277	23,731,972	2,359,390	891,312
Total primary government	\$ 73,364,849	\$ 27,150,881	\$ 8,052,678	\$ 4,482,365
General revenues:				
Property taxes				
Other tax-related revenue				
Intergovernmental (unrestricted)				
Investment earnings				
Miscellaneous revenues				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year, as restated (Notes 5 and 18)				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (3,425,375)	\$ -	\$ (3,425,375)
(12,799,759)	-	(12,799,759)
(2,697,208)	-	(2,697,208)
(718,478)	-	(718,478)
(2,277,135)	-	(2,277,135)
(2,962,405)	-	(2,962,405)
(3,486,008)	-	(3,486,008)
196,604	-	196,604
(533,505)	-	(533,505)
(7,248,312)	-	(7,248,312)
(896,490)	-	(896,490)
75,724	-	75,724
(8,975)	-	(8,975)
(36,781,322)	-	(36,781,322)
-	782,358	782,358
-	(900,046)	(900,046)
-	2,320,844	2,320,844
-	380,511	380,511
-	(95,157)	(95,157)
-	(620,013)	(620,013)
-	1,233,900	1,233,900
-	3,102,397	3,102,397
(36,781,322)	3,102,397	(33,678,925)
32,484,991	-	32,484,991
1,245,590	-	1,245,590
3,531,736	-	3,531,736
3,389,149	914,607	4,303,756
22,435	163,591	186,026
(939,940)	939,940	-
39,733,961	2,018,138	41,752,099
2,952,639	5,120,535	8,073,174
96,149,691	112,901,324	209,051,015
\$ 99,102,330	\$ 118,021,859	\$ 217,124,189

City of Midland, Michigan

Governmental Funds Balance Sheet June 30, 2007

	General Fund	Major Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 35,408,426	\$ 6,346,916	\$ 5,670,404	\$ 47,425,746
Receivables - Net of allowances for uncollectibles:				
Property taxes	17,045	-	706	17,751
Trust deeds	70,808	-	1,388,915	1,459,723
Accounts and contracts	101,256	5,184	465,977	572,417
Accrued interest	120,645	33,645	17,514	171,804
Due from other funds (Note 4)	-	-	125,109	125,109
Due from other governmental units	544,015	476,757	373,984	1,394,756
Inventory	105,402	-	288,118	393,520
Prepaid items	678,438	-	-	678,438
Total assets	<u>\$ 37,046,035</u>	<u>\$ 6,862,502</u>	<u>\$ 8,330,727</u>	<u>\$ 52,239,264</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 2,938,441	\$ 116,307	\$ 326,288	\$ 3,381,036
Accrued salaries and wages	500,227	-	71,951	572,178
Due to other funds	-	-	275,109	275,109
Deposits	49,317	-	26,486	75,803
Deferred revenue	-	-	1,492,386	1,492,386
Total liabilities	<u>3,487,985</u>	<u>116,307</u>	<u>2,192,220</u>	<u>5,796,512</u>
Fund Balances				
Reserved:				
General Fund:				
Encumbrances	1,758,720	-	-	1,758,720
Prepaid items and inventory	106,482	-	-	106,482
Trust deeds/installment contracts	70,808	-	-	70,808
Tax appeal contingency (Note 17)	24,235,306	-	-	24,235,306
Rights of way	-	-	-	-
Special Revenue Funds:				
Encumbrances	-	170,000	428,409	598,409
Trust deeds/installment contracts	-	-	-	-
Tax appeal contingency (Note 17)	-	2,647,615	-	2,647,615
Special trust activities	-	-	178,251	178,251
Housing activities	-	-	595,295	595,295
Permanent Fund - Cemetery activities	-	-	1,649,734	1,649,734
Debt Service Fund - Debt service	-	-	9,331	9,331
Unreserved:				
Designated for future year expenditures:				
General Fund	3,471,577	-	-	3,471,577
Special Revenue Funds	-	562,176	598,069	1,160,245
Undesignated:				
General Fund	3,915,157	-	-	3,915,157
Capital Projects Fund	-	-	366,429	366,429
Special Revenue Funds	-	3,366,404	2,312,989	5,679,393
Total fund balances	<u>33,558,050</u>	<u>6,746,195</u>	<u>6,138,507</u>	<u>46,442,752</u>
Total liabilities and fund balances	<u>\$ 37,046,035</u>	<u>\$ 6,862,502</u>	<u>\$ 8,330,727</u>	<u>\$ 52,239,264</u>

City of Midland, Michigan

Governmental Funds Reconciliation of Balance Sheet to the Statement of Net Assets June 30, 2007

Fund Balance - Total Governmental Funds		\$	46,442,752
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of capital assets, less accumulated depreciation			74,206,819
Investments in joint ventures are not financial resources and therefore are not reported in the governmental funds			311,588
Internal Service Funds are included as part of governmental activities:			
Net assets of all Internal Service Funds	\$	15,123,411	
Less allocation to business-type activities		<u>(3,979,510)</u>	
Total			11,143,901
Some of the City's receivables will not be collected soon enough after year end to be available to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds - Due from other governmental units - State revenue sharing and grant funds			695,054
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and therefore are not reported in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net assets:			
Bonds and notes payable		(100,000)	
Capital lease payable		(1,164,223)	
Property tax appeal reserve, net		(28,793,937)	
Compensated absences		(3,821,560)	
Less internal service compensated absences		<u>181,936</u>	
Total long-term liabilities			<u>(33,697,784)</u>
Net Assets - Governmental Activities		\$	<u>99,102,330</u>

City of Midland, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	Major Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 30,176,214	\$ 1,724,114	\$ 951,634	\$ 32,851,962
Other tax-related revenue	1,245,590	-	-	1,245,590
Licenses and permits	435,488	40,782	134,282	610,552
Intergovernmental - Federal	54,378	281,250	617,369	952,997
Intergovernmental - Other	3,531,736	3,587,770	1,549,439	8,668,945
Charges for services	1,734,615	179,638	1,487,991	3,402,244
Use and admission charges	190,969	-	-	190,969
Investment earnings	2,687,964	348,044	278,062	3,314,070
Contributions and other revenues	935,363	520,023	322,265	1,777,651
Total revenues	40,992,317	6,681,621	5,341,042	53,014,980
Expenditures				
Current:				
General government	4,392,228	-	511,793	4,904,021
Public safety	12,072,103	-	-	12,072,103
Public works	1,989,935	1,505,972	1,877,403	5,373,310
Community development	-	-	938,099	938,099
Sanitation	2,209,944	-	-	2,209,944
Parks and recreation	3,419,246	-	-	3,419,246
Library	-	-	3,767,747	3,767,747
Airport	282,341	-	-	282,341
Transportation	-	-	1,651,533	1,651,533
Tax roll adjustment	9,184,008	-	-	9,184,008
Tax appeal defense	896,490	-	-	896,490
Other functions	4,877,761	-	-	4,877,761
Capital improvement	371,825	5,249,491	1,950,592	7,571,908
Debt service:				
Principal retirement	-	-	75,000	75,000
Interest and fiscal charges	-	-	12,161	12,161
Total expenditures	39,695,881	6,755,463	10,784,328	57,235,672
Excess of Revenues Over (Under) Expenditures	1,296,436	(73,842)	(5,443,286)	(4,220,692)
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	82,817	82,817
Transfers in	22,757	162,730	6,743,289	6,928,776
Transfers out	(5,474,641)	(1,434,694)	(1,605,892)	(8,515,227)
Total other financing sources (uses)	(5,451,884)	(1,271,964)	5,220,214	(1,503,634)
Net Change in Fund Balances	(4,155,448)	(1,345,806)	(223,072)	(5,724,326)
Fund Balances - Beginning of year, as restated - Note 18)	37,713,498	8,092,001	6,361,579	52,167,078
Fund Balances - End of year	<u>\$ 33,558,050</u>	<u>\$ 6,746,195</u>	<u>\$ 6,138,507</u>	<u>\$ 46,442,752</u>

City of Midland, Michigan

Governmental Funds

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (5,724,326)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciable expense	5,858,204
Internal Service Funds are used by the City to charge the cost of certain activities to individual funds. A portion of net revenue (expense) of the Internal Service Funds is reported with governmental activities	602,653
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. Some of the City's receivables will be collected after year end, but are not available soon enough to pay for the current period's expenditures; therefore, they are reported as deferred revenue in the funds:	
Decrease in account receivable from State of Michigan	\$ (1,059)
Change in deferred revenue	<u>(29,199)</u>
Total deferred revenues	(30,258)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets - Payments on long-term debt	<u>241,287</u>
Total debt activity	241,287
Accrued compensated absences, in most cases, are not recorded in governmental funds. These expenses are recognized when earned in the statement of activities	14,807
The collection of property taxes to fund a reserve for tax appeals is recorded as revenue in governmental funds. However, this reserve will eventually be paid out, so it is a liability, and the change in this reserve is shown as a reduction to the current year's property tax revenue in arriving at the change in net assets	<div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 10px;"> 1,422,011 408,476 <u>445,727</u> </div> <div style="text-align: right;">2,276,214</div> </div>
Expenditures in the government-wide statements were increased in the current year related to Midland Townships portion of the tax appeals which were overstated in prior years and corrected in the current year as outlined in Note 18.	(341,532)
Investments in joint ventures are not financial resources and therefore are not shown on the fund-based statements	<u>55,590</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,952,639</u>

City of Midland, Michigan

	Business-type Activities - Enterprise Funds			
	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 4,573,440	\$ 1,229,782	\$ 1,654,831	\$ 5,818,133
Investments (Note 3)	-	-	-	-
Receivables - Net of allowances for uncollectibles:				
Accounts and contracts	1,454,487	900,042	1,194	506,837
Special assessments - Current	-	-	-	-
Accrued interest	13,697	10,240	5,288	18,442
Interfund loan - Current	-	-	-	416,055
Due from other funds (Note 4)	-	-	-	-
Inventories	489,686	-	-	-
Prepaid items	-	-	-	-
Restricted assets - Current	1,200,045	917,765	-	-
Total current assets	7,731,355	3,057,829	1,661,313	6,759,467
Noncurrent assets:				
Interfund loan receivable	-	-	-	893,515
Restricted assets	54,125	-	-	1,545,516
Property, plant, and equipment:				
Construction in progress	441,925	55,019	-	1,885,988
Land and land improvements	48,165	148,722	677,140	11,471,794
Buildings and structures	27,335,925	19,239,507	20,308,058	895,452
Water and sewer lines	35,661,990	41,199,272	-	-
Vehicles	54,679	57,098	-	550,360
Equipment	1,857,145	1,260,941	683,664	480,557
Total property, plant, and equipment	65,399,829	61,960,559	21,668,862	15,284,151
Accumulated depreciation	(32,207,653)	(18,987,839)	(7,757,475)	(8,026,712)
Net property, plant, and equipment	33,192,176	42,972,720	13,911,387	7,257,439
Other assets:				
Investment in joint venture	7,954,905	-	-	-
Unamortized bond issuance costs and discounts	-	78,209	-	-
Total other assets	7,954,905	78,209	-	-
Total noncurrent assets	41,201,206	43,050,929	13,911,387	9,696,470
Total assets	48,932,561	46,108,758	15,572,700	16,455,937

Proprietary Funds
Statement of Net Assets
June 30, 2007

Business-type Activities - Enterprise Funds			
Civic Arena	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 878,476	\$ 236,767	\$ 14,391,429	\$ 7,171,836
-	343,589	343,589	-
49,221	8,306	2,920,087	7,572
-	-	-	66,958
3,241	161	51,069	19,985
-	-	416,055	-
-	-	-	150,000
106,069	6,088	601,843	356,147
-	-	-	25,000
-	-	2,117,810	-
1,037,007	594,911	20,841,882	7,797,498
-	-	893,515	262,860
-	-	1,599,641	-
-	-	2,382,932	-
488,347	5,988,830	18,822,998	55,000
8,548,822	2,746,219	79,073,983	3,106,761
-	-	76,861,262	-
-	76,716	738,853	13,537,432
1,003,414	251,583	5,537,304	2,473,910
10,040,583	9,063,348	183,417,332	19,173,103
(482,042)	(2,143,007)	(69,604,728)	(11,755,344)
9,558,541	6,920,341	113,812,604	7,417,759
-	-	7,954,905	-
-	-	78,209	-
-	-	8,033,114	-
9,558,541	6,920,341	124,338,874	7,680,619
10,595,548	7,515,252	145,180,756	15,478,117

City of Midland, Michigan

Business-type Activities - Enterprise Funds				
	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Liabilities				
Current liabilities:				
Accounts payable	\$ 509,279	\$ 53,971	\$ 56,840	\$ 764,085
Accrued salaries and wages	64,501	37,784	22,635	17,407
Accrued compensated absences	170,573	83,298	48,936	41,267
Due to other governments	10,963	-	-	-
Deposits	9,391	-	58,631	-
Interfund loan - Current	-	-	-	-
Payable from restricted assets:				
Accrued interest	45,045	102,765	-	-
Current portion - Bonds payable	1,155,000	815,000	-	-
Total current liabilities	1,964,752	1,092,818	187,042	822,759
Noncurrent liabilities:				
Interfund loan - Noncurrent	-	-	-	-
Payable from restricted assets - Guarantee deposits	54,125	-	-	-
Bonds payable - Long-term	2,310,000	14,227,714	-	-
Accrued compensated absences	215,283	103,337	57,364	64,557
Accrued landfill closure and postclosure care cost	-	-	-	3,018,000
Total noncurrent liabilities	2,579,408	14,331,051	57,364	3,082,557
Total liabilities	4,544,160	15,423,869	244,406	3,905,316
Net Assets				
Investment in capital assets - Net of related debt	29,727,176	27,930,006	13,911,387	7,257,439
Restricted for:				
Revenue bond retirement	1,219,000	-	-	-
Emergency repair	25,000	-	-	-
Capital projects	-	-	-	-
Unrestricted	13,417,225	2,754,883	1,416,907	5,293,182
Total net assets	\$ 44,388,401	\$ 30,684,889	\$ 15,328,294	\$ 12,550,621

Total net assets of the Internal Service Funds allocable to the business-type activities

Total

Proprietary Funds
Statement of Net Assets (Continued)
June 30, 2007

Business-type Activities - Enterprise Funds

Civic Arena	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 43,490	\$ 43,920	\$ 1,471,585	\$ 133,250
-	-	142,327	39,520
-	-	344,074	138,463
-	-	10,963	-
-	-	68,022	-
416,055	-	416,055	-
38,676	-	186,486	-
490,000	-	2,460,000	-
988,221	43,920	5,099,512	311,233
893,515	-	893,515	-
-	-	54,125	-
5,095,000	-	21,632,714	-
-	-	440,541	43,473
-	-	3,018,000	-
5,988,515	-	26,038,895	43,473
6,976,736	43,920	31,138,407	354,706
2,663,971	6,920,341	88,410,320	7,417,759
-	-	1,219,000	-
-	-	25,000	-
-	499,646	499,646	-
954,841	51,345	23,888,383	7,705,652
\$ 3,618,812	\$ 7,471,332	114,042,349	\$ 15,123,411
		3,979,510	
		\$ 118,021,859	

City of Midland, Michigan

	Business-type Activities - Enterprise Funds			
	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Operating Revenue				
Service charges	\$ -	\$ 4,588,778	\$ -	\$ -
Water sales	7,568,017	-	-	-
Use and admission charges	-	-	-	5,041,271
Rentals	380,926	-	2,156,351	-
Fines and forfeits	83,213	64,717	-	8,069
Miscellaneous revenue	-	-	-	-
Total operating revenue	8,032,156	4,653,495	2,156,351	5,049,340
Operating Expenses				
Operations	4,006,050	1,074,122	2,191,683	2,010,992
Administration	1,008,300	666,695	-	-
Maintenance	2,340,307	1,515,813	-	-
Depreciation	1,216,550	1,454,327	439,314	497,059
Total operating expenses	8,571,207	4,710,957	2,630,997	2,508,051
Net Operating Income (Loss)	(539,051)	(57,462)	(474,646)	2,541,289
Nonoperating Revenue (Expenses)				
Investment earnings	302,321	100,843	90,212	418,959
Contractual revenues	1,073,493	-	-	-
Profit (loss) on disposition of assets	(6,600)	(3,243)	(2,822)	17,600
Sale of meals - Revenue	-	-	421,969	-
Sale of meals - Expense	-	-	(572,855)	-
Contributions	-	-	-	-
Miscellaneous revenue	373,981	8,489	272,063	19,305
Interest expense	(223,768)	(641,347)	-	-
Miscellaneous expenses	(424,746)	(235,984)	(96,130)	(219,245)
Total nonoperating revenue (expenses)	1,094,681	(771,242)	112,437	236,619
Income (Loss) - Before capital contributions and operating transfers	555,630	(828,704)	(362,209)	2,777,908
Capital Contributions	631,654	255,600	-	-
Transfers In	65,910	854,935	30,795	-
Transfers Out	(100,000)	(140,000)	-	(11,700)
Change in Net Assets	1,153,194	141,831	(331,414)	2,766,208
Net Assets - Beginning of year	43,235,207	30,543,058	15,659,708	9,784,413
Net Assets - End of year	<u>\$ 44,388,401</u>	<u>\$ 30,684,889</u>	<u>\$ 15,328,294</u>	<u>\$ 12,550,621</u>

Change in Net Assets

Some amounts reported for business-type activities in the statement of activities are different because net revenue (expense) of certain internal services is reported with business-type activities

Change in net assets of business-type activities

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2007

Business-type Activities - Enterprise Funds			
Civic Arena	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ -	\$ -	\$ 4,588,778	\$ 2,063,477
-	-	7,568,017	-
1,056,417	973,412	7,071,100	-
-	-	2,537,277	3,375,566
-	-	155,999	-
-	-	-	82,868
<u>1,056,417</u>	<u>973,412</u>	<u>21,921,171</u>	<u>5,521,911</u>
1,130,306	994,067	11,407,220	5,176,679
-	-	1,674,995	-
-	94,264	3,950,384	-
<u>322,966</u>	<u>167,978</u>	<u>4,098,194</u>	<u>1,447,170</u>
<u>1,453,272</u>	<u>1,256,309</u>	<u>21,130,793</u>	<u>6,623,849</u>
<u>(396,855)</u>	<u>(282,897)</u>	<u>790,378</u>	<u>(1,101,938)</u>
31,459	13,267	957,061	348,562
-	-	1,073,493	-
-	40,326	45,261	109,555
-	-	421,969	-
-	-	(572,855)	-
1,859,744	-	1,859,744	-
66,072	549,959	1,289,869	44,857
(318,920)	(16,832)	(1,200,867)	-
-	-	(976,105)	(49,800)
<u>1,638,355</u>	<u>586,720</u>	<u>2,897,570</u>	<u>453,174</u>
1,241,500	303,823	3,687,948	(648,764)
-	-	887,254	258,610
200,000	40,000	1,191,640	711,927
-	-	(251,700)	(65,416)
<u>1,441,500</u>	<u>343,823</u>	<u>5,515,142</u>	<u>256,357</u>
<u>2,177,312</u>	<u>7,127,509</u>	<u>108,527,207</u>	<u>14,867,054</u>
<u>\$ 3,618,812</u>	<u>\$ 7,471,332</u>	<u>\$ 114,042,349</u>	<u>\$ 15,123,411</u>
		\$ 5,515,142	
		(394,607)	
		<u>\$ 5,120,535</u>	

City of Midland, Michigan

	Water	Wastewater	Real Estate Rental	Civic Arena
Cash Flows from Operating Activities				
Receipts from customers	\$ 7,942,388	\$ 4,654,958	\$ 2,163,332	\$ 1,015,966
Payment to suppliers	(4,093,574)	(2,140,771)	(1,171,399)	(775,488)
Payment to employees	(3,132,007)	(1,428,265)	(1,002,089)	(361,436)
Net cash provided by (used in) operating activities	716,807	1,085,922	(10,156)	(120,958)
Cash Flows from Noncapital Financing Activities				
Transfers in (governmental)	(34,090)	714,935	30,795	200,000
Nonoperating (expenses) revenues	(46,707)	(227,495)	25,047	1,925,816
Net cash provided by (used in) noncapital financing activities	(80,797)	487,440	55,842	2,125,816
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(929,500)	(534,703)	(112,606)	(86,924)
Principal payments on bonds, notes, and contracts payable	(1,155,000)	(755,000)	-	(1,109,988)
Interest paid	(238,206)	(596,458)	-	(79,030)
Contractual revenues	1,069,435	-	-	-
Gain (loss) from sale of capital assets	(6,600)	(3,243)	(2,822)	-
Net cash used in capital and related financing activities	(1,259,871)	(1,889,404)	(115,428)	(1,275,942)
Cash Flows from Investing Activities				
Investment earnings	302,925	101,616	89,973	28,218
Interfund loan	-	-	(9,000)	-
Net cash provided by (used in) investing activities	302,925	101,616	80,973	28,218
Net Increase (Decrease) in Cash and Cash Equivalents	(320,936)	(214,426)	11,231	757,134
Cash and Cash Equivalents - Beginning of year	6,148,546	2,361,973	1,643,600	121,342
Cash and Cash Equivalents - End of year	<u>\$ 5,827,610</u>	<u>\$ 2,147,547</u>	<u>\$ 1,654,831</u>	<u>\$ 878,476</u>
Cash and Equivalents Reported on Statement of Net Assets as Follows				
Cash and equivalents	\$ 4,573,440	\$ 1,229,782	\$ 1,654,831	\$ 878,476
Restricted assets - Current	1,200,045	917,765	-	-
Restricted assets - Noncurrent	54,125	-	-	-
Net cash and equivalents	<u>\$ 5,827,610</u>	<u>\$ 2,147,547</u>	<u>\$ 1,654,831</u>	<u>\$ 878,476</u>
Noncash Investing Activities - Changes in fair value of investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Noncash Capital Financing Activities - Developer contributions	<u>\$ 631,654</u>	<u>\$ 255,600</u>	<u>\$ -</u>	<u>\$ -</u>

**Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2007**

Sanitary Landfill	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 5,079,293	\$ 977,887	\$ 21,833,824	\$ 5,671,331
(577,093)	(839,385)	(9,597,710)	(3,083,858)
<u>(727,184)</u>	<u>(533,560)</u>	<u>(7,184,541)</u>	<u>(2,180,067)</u>
3,775,016	(395,058)	5,051,573	407,406
(11,700)	40,000	939,940	646,511
<u>(199,940)</u>	<u>549,957</u>	<u>2,026,678</u>	<u>(4,943)</u>
(211,640)	589,957	2,966,618	641,568
(2,091,658)	(4,610)	(3,760,001)	(1,249,080)
-	-	(3,019,988)	-
-	-	(913,694)	-
-	-	1,069,435	-
<u>17,600</u>	<u>-</u>	<u>4,935</u>	<u>109,555</u>
(2,074,058)	(4,610)	(6,619,313)	(1,139,525)
414,557	(3,585)	933,704	341,992
<u>407,139</u>	<u>-</u>	<u>398,139</u>	<u>-</u>
821,696	(3,585)	1,331,843	341,992
2,311,014	186,704	2,730,721	251,441
<u>5,052,635</u>	<u>50,063</u>	<u>15,378,159</u>	<u>6,920,395</u>
<u>\$ 7,363,649</u>	<u>\$ 236,767</u>	<u>\$ 18,108,880</u>	<u>\$ 7,171,836</u>
\$ 5,818,133	\$ 236,767	\$ 14,391,429	\$ 7,171,836
-	-	2,117,810	-
<u>1,545,516</u>	<u>-</u>	<u>1,599,641</u>	<u>-</u>
<u>\$ 7,363,649</u>	<u>\$ 236,767</u>	<u>\$ 18,108,880</u>	<u>\$ 7,171,836</u>
<u>\$ -</u>	<u>\$ 40,326</u>	<u>\$ 40,326</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 887,254</u>	<u>\$ 258,610</u>

City of Midland, Michigan

	Water	Wastewater	Real Estate Rental	Civic Arena
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (539,051)	\$ (57,462)	\$ (474,646)	\$ (396,855)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	1,216,550	1,454,327	439,314	322,966
Gain on investment in joint venture	10,995	-	-	-
Changes in operating assets and liabilities:				
Accounts receivable	(101,330)	1,464	6,531	(40,451)
Due to other funds	(19,310)	-	-	-
Inventory	(93,517)	-	-	(21,381)
Prepaid items	-	-	-	5,283
Accounts payable	249,576	(329,163)	7,793	9,480
Accrued salaries and wages	(2,072)	1,023	1,233	-
Customer deposits received	11,562	-	450	-
Customer deposits returned	-	-	-	-
Accrued landfill closure costs	-	-	-	-
Compensated absences, death benefits, and workers' compensation	(16,596)	15,733	9,169	-
Net cash provided by (used in) operating activities	<u>\$ 716,807</u>	<u>\$ 1,085,922</u>	<u>\$ (10,156)</u>	<u>\$ (120,958)</u>

Proprietary Funds
Statement of Cash Flows (Continued)
Year Ended June 30, 2007

Sanitary Landfill	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 2,541,289	\$ (282,897)	\$ 790,378	\$ (1,101,938)
497,059	167,978	4,098,194	1,447,170
-	-	10,995	-
29,953	4,475	(99,358)	149,420
-	-	(19,310)	-
-	(6,088)	(120,986)	(70,962)
-	21,000	26,283	-
696,312	(299,526)	334,472	33,348
(301)	-	(117)	(1,256)
-	-	12,012	-
-	-	-	-
(4,000)	-	(4,000)	-
14,704	-	23,010	(48,376)
\$ 3,775,016	\$ (395,058)	\$ 5,051,573	\$ 407,406

City of Midland, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Agency Funds	Pension and Other Employee Benefit Trust Funds
Assets		
Cash and cash equivalents	\$ 97,650	\$ 2,378,623
Investments:		
Common stock	-	26,517,568
Preferred stock	-	1,363,562
Bonds	-	9,300,902
U.S. government securities	-	789,540
Mortgage and asset-backed securities	-	4,603,092
International funds	-	11,877,159
Receivables - Net of allowances for uncollectibles:		
Accounts and contracts	15,000	225
Accrued interest receivable	309	77,715
Total assets	112,959	<u><u>\$ 56,908,386</u></u>
Liabilities		
Due to foundations	105,146	\$ -
Due to other governmental units	7,813	-
Total liabilities	112,959	<u><u>-</u></u>
Net Assets		
Held in trust for pension benefits	-	56,901,987
Held in trust for postemployment health benefits	-	6,399
Total net assets	<u><u>\$ -</u></u>	<u><u>\$ 56,908,386</u></u>

City of Midland, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2007

	Pension and Other Employee Benefit Trust Fund
Additions	
Contributions:	
Employer	\$ 3,037,626
Employee	630,681
Total contributions	<u>3,668,307</u>
Investment income:	
Net appreciation in fair value of assets	7,882,508
Interest	664,143
Dividends	584,553
Total investment income	9,131,204
Less investment expenses	<u>(330,783)</u>
Net investment income	<u>8,800,421</u>
Total additions	12,468,728
Deductions - Benefit payments	<u>5,058,372</u>
Change in Net Assets	7,410,356
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>49,498,030</u>
End of year	<u><u>\$ 56,908,386</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Midland, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Midland, Michigan:

Reporting Entity

The City is a municipal corporation governed by an elected five-member City Council (the "Council"), which biannually selects one of its members to serve as mayor. The City operates under a council-manager form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations, and data from these units are therefore combined with data from the primary government.

Blended Component Unit

Midland Downtown Development Authority - The Midland Downtown Development Authority (MDDA) was established in 1987 for the purpose of maintaining and renovating the downtown Midland area. The MDDA is administered by a 13-person board, which is appointed by the City Council. Funding for the MDDA is provided by a two-mill levy on property within the district and by tax increment financing. All projects initiated by the MDDA are considered public improvements to the City's infrastructure, parks, or parking facilities. Since the MDDA is used exclusively as a financing source for City facilities, it has been blended into the financial statements of the City as a Special Revenue Fund. The MDDA has a June 30 year end.

Joint Ventures

Saginaw-Midland Municipal Water Supply Corporation - The Saginaw-Midland Municipal Water Supply Corporation (SMMWSC), located approximately 13.5 miles east of the city of Midland, is an authority incorporated by the cities of Midland and Saginaw, Michigan, under Act 233, Public Acts of Michigan, 1955, as amended. The SMMWSC is administered by a six-member board of trustees, each community appointing three members, and is empowered to prepare, adopt, and submit to the legislative bodies of each municipality an annual budget covering estimated revenues, proposed expenditures, and the necessary funds required from each municipality for the next fiscal year.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Funding for the acquisition of property and for the development and improvement of the water supply system is provided by sale of SMMWSC negotiable bonds secured by the full faith and credit of each municipality in a ratio based upon predetermined capacity reserves; 20/43rds for the City of Midland and 23/43rds for the City of Saginaw. Funding for operations is provided by sale of water to the two communities on a consumption basis. The City's equity in the SMMWSC is accounted for in the Water Fund, which is included in the business-type activities column of the statement of net assets.

A summary of the financial information for the year ended June 30, 2007 follows:

Total assets	\$ 39,219,630
Total liabilities	22,116,585
Equity - City of Midland	7,954,905
Equity - City of Saginaw	9,148,140
Total revenues	5,245,090
Total expenses	4,197,550
Net income	1,047,540

At June 30, 2007, total outstanding bonded debt of the SMMWSC was \$21,670,000. The City was obligated for \$10,079,070 of this total.

Midland City/County Joint Building Authority - The City's ownership interest in the Midland City/County Joint Building Authority is accounted for in the governmental activities column of the statement of net assets. The Authority was created as a financing vehicle for the Midland Law Enforcement Center. The Law Enforcement Center is leased from the Joint Building Authority (JBA) by the City of Midland Police Department, the Midland County Sheriff Department, and the Midland County Central Dispatch Authority. The JBA is governed by a three-person board with the City and County each appointing one member and with the third member being mutually appointed. Additional information concerning the Joint Building Authority and its lease with the City is detailed in Note 8 - Leases.

General - Complete financial statements, which are audited for the Saginaw-Midland Municipal Water Supply Corporation and the Midland City/County Joint Building Authority, are available from the city clerk's office.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating parties in the near future for any of the above organizations.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay current period liabilities.

For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses, interest, and special assessments are susceptible to accrual. Sales and motor fuel taxes collected and held by the State at fiscal year end on behalf of the City are also recognized as revenue of the current fiscal period. Other receipts become measurable and available when cash is received by the City and are recognized as revenue at that time.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Street Fund accounts for state-shared revenues relating to construction activities, repairs, and maintenance of all major streets and trunklines.

The City reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the City's water supply system, capital additions, and retirement of bonds.
- The Wastewater Fund accounts for the operation and maintenance of the City's sewage disposal system, capital additions and improvements, and retirement of bonds.
- The Landfill Fund accounts for the operation and maintenance of the City's trash and garbage disposal system.
- The Civic Arena Fund accounts for the operations and maintenance of the City's ice arena facility, capital additions, and retirement of debt.

Note 1 - Summary of Significant Accounting Policies (Continued)

- The Real Estate Rental Fund accounts for the operation and maintenance of the City's various senior housing rental properties.

Additionally, the City reports the following Internal Service Funds:

- The Data Processing Fund accounts for the operations of the City's Information Services Department.
- The Geographical Information Systems Fund accounts for operations of the City's geographic information systems.
- The Equipment Revolving Fund accounts for the rental charges of City-owned equipment to other City departments.
- The Service Center Rental Fund accounts for the operations of the City's Service Center building.
- The Insurance Claims Fund accounts for insurance expenses resulting from property and liability claims.
- The Special Assessment Revolving Fund accounts for the funding of the City's special assessment projects.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Because these funds represent trust responsibilities of the City, these assets are restricted in purpose and do not represent discretionary assets of the City. The Police and Fire Retirement Fund and the Post-Employment Health Care Plan Fund are fiduciary funds of the City. The City's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets.

The Agency Funds account for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The Shopping Area Redevelopment Authority Fund accounts for special assessments charged to property owners within the authority district for promotion of the area. The City acts as an agent for the financial management of this authority. The Tax Collection Fund is used to account for taxes collected on behalf of other governmental units. The DDA Façade Improvements Fund accounts for loans to businesses in the Downtown Development Authority business district. The funding for these loans was provided by a grant from the Rollin M. Gerstacker Foundation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. The portion intended to recover the cost of infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the City, as well as for its component unit, are reported at fair value.

Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payables" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Note 1 - Summary of Significant Accounting Policies (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts totaling \$215,000. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance at June 30, 2007 is equal to 100 percent of outstanding property taxes over four years old plus 4 percent of outstanding property taxes less than five years old.

Properties are assessed annually as of December 31, and property taxes are billed and become a lien on July 1 of the following year. These taxes are due on September 15 with a final collection date of February 28 before they are added to the county tax roll. The City also bills and collects an amount each December, primarily for schools, county, and college. Also included in the December billing is a tax administration fee, which is revenue to the City. The December billing is due on February 14 with a final collection date of February 28. Penalties and interest are assessed on payments received after the due date.

The 2006 taxable valuation of the City totaled \$2,432,040,700, on which ad valorem taxes levied consisted of 11.87 mills for the City's operating purposes and debt levies equaling .23 mills. This resulted in \$29,689,499 for operating and \$575,815 for debt service. The ad valorem taxes levied are recognized in the respective General, Special Revenue, and Water and Sewer Funds financial statements as taxes receivable - current or as tax revenue.

Inventories and Prepaid Items - Inventories are valued at cost on an average cost method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets - Certain resources set aside for debt service on the City's Enterprise Fund revenue bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Additionally, certain resources set aside for closure and postclosure costs for the enterprise landfill operation are classified as restricted assets because their use is limited by applicable state regulations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Projects with total costs of less than \$10,000 are considered repair and are expensed in the year incurred. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Building improvements	20 years
Land improvements	50 years
Roads and sidewalks	20-30 years
Water and sewer distribution systems	50 years
Vehicles	3-10 years
Equipment	10 years
Library circulation material	5 years
Computer equipment	4 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is fully vested when earned, and sick pay is conditionally vested upon completion of 10 years of service. Upon retirement, employees are paid accumulated vacation and one-half of unused sick days at their hourly rate as of their retirement date.

All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for the entire amount, current and long-term, is accrued in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Note I - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, it is the City's policy to first apply restricted resources.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection on building construction renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 follows:

Shortfall at July 1, 2006		\$	(309,894)
Current year building permit revenue			341,631
Related expenses:			
Direct costs	\$	410,230	
Estimated indirect costs		<u>24,614</u>	
Total construction code expenses			<u>434,844</u>
Cumulative shortfall at June 30, 2007		\$	<u>(403,107)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The City Council has designated nine financial institutions for the deposit of Local Unit funds. The investment policy adopted by the City in accordance with Public Act 20 of 1943 (as amended) authorizes investments in U.S. Treasuries, U.S. agencies and instrumentalities, certificates of deposit, commercial paper (meeting certain rating and maturity requirements), repurchase agreements, investment pools, bankers' acceptances of U.S. banks, and mutual funds. Repurchase agreements must be signed with the bank or dealer and must contain provisions comparable to those outlined in the Public Security Association's model Master Repurchase Agreement. The treasurer may invest in investment pools organized under the Surplus Funds Investment Pool Act of 1982 and under the Urban Cooperation Act of 1967.

For mutual funds, the treasurer may invest in funds registered under the Investment Company Act of 1940. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share and investment vehicles that are legal for direct investment by a public corporation.

The above-mentioned City investment policy applies to all financial assets of the City except for its Post Retirement Health Care Fund and the Police and Fire Retirement System Fund, which are organized and administered separately. Investments are made pursuant to provisions of the Public Employee Retirement System Investment Act of 1965. Michigan Public Act 314 of 1965 and Michigan Public Act 149 of 1999, as amended, authorize investments in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$56,309,726 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits its funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
Commercial paper	\$ 9,989,289	0.112
Government bonds	2,159,617	9.656
Asset and mortgage-backed securities	4,603,092	24.761
Corporate bonds	9,300,902	15.438
International bonds	877,464	17.267

City of Midland, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Organization
Interlocal Agreement Fund	\$ 245,879	AAA- VI+	Fitch
Bank Investment Pooled Funds	2,242,911	Not Rated	N/A
Commercial paper	9,989,289	A1	S & P
Government bonds	29,747	AA-	S & P
Money market funds	1,276,182	AAA	S & P
Money market funds	2,377,211	Not Rated	N/A
Mutual funds	2,814,558	Not Rated	N/A
Asset and mortgage-backed securities	4,603,092	AAA	S & P
Corporate bonds	88,856	AAA	S & P
Corporate bonds	34,399	AA+	S & P
Corporate bonds	188,799	AA	S & P
Corporate bonds	535,271	AA-	S & P
Corporate bonds	1,580,244	A+	S & P
Corporate bonds	560,421	A	S & P
Corporate bonds	2,068,761	A-	S & P
Corporate bonds	948,246	BBB+	S & P
Corporate bonds	1,189,127	BBB	S & P
Corporate bonds	812,634	BBB-	S & P
Corporate bonds	496,294	BB+	S & P
Corporate bonds	225,750	BB	S & P
Corporate bonds	289,913	Not Rated	N/A
Corporate bonds	282,187	Aa3	Moody's
International bonds	325,069	A+	S & P
International bonds	32,383	A-	S & P
International bonds	416,763	BBB	S & P
International bonds	103,250	BBB-	S & P

City of Midland, Michigan

Note 4 - Interfund Transfers, Receivables, and Payables

Interfund transfers reported in the fund statements for the year ended June 30, 2007 were as follows:

	Transfers Out						
	General Fund	Major Street Fund	Local Street Fund	Storm Water Mgmt. Fund	Community Develop Block Grant	Downtown Develop. Auth. Fund	Special Activities Fund
Transfers in:							
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Major Street Fund	122,730	-	-	-	-	40,000	-
Local Street Fund	375,625	1,315,000	-	-	79,917	-	-
Storm Water Mgmt. Fund	195,272	88,444	168,271	-	-	-	-
Grace A. Dow Library Fund	2,978,545	-	-	-	-	-	-
Cable Communications Fund	106,100	-	-	-	-	-	-
Transportation Fund	561,646	-	-	-	-	-	-
Debt Fund	196,735	-	-	-	-	83,975	-
Capital Projects Fund	355,488	-	762	511	-	163,062	-
Civic Arena Fund	200,000	-	-	-	-	-	-
Real Estate Rental Fund	-	-	-	-	30,000	-	795
Parking Fund	-	-	-	-	-	40,000	-
Wastewater Fund	-	-	-	-	985	-	-
Water Fund	-	-	-	-	-	-	-
Geographic Info Sys Fund	382,500	31,250	31,250	-	-	-	-
Equipment Revolving Fund	-	-	-	-	-	-	-
Special Assessment Rev.	-	-	-	-	-	-	-
Midland Housing Fund	-	-	-	-	27,641	-	-
Total	\$ 5,474,641	\$ 1,434,694	\$ 200,283	\$ 511	\$ 138,543	\$ 327,037	\$ 795

The transfers from the General Fund to the Grace A. Dow Memorial Library Fund, the Cable Communications Fund, the Civic Arena Fund, and the Geographical Information Systems Fund represent the use of unrestricted resources to finance these programs, in accordance with budgetary authorizations. The transfer from the General Fund to the Capital Projects Fund represents funding of construction projects from unrestricted resources, in accordance with budgetary authorizations. The transfer from the Major Street Fund to the Local Street Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51. The transfer from the Debt Fund to the Wastewater Fund is necessary to transfer an additional millage for debt retirement to the Wastewater Fund, which is the fund that accounts for the related debt.

Notes to Financial Statements June 30, 2006

Transfers Out							
Debt Fund	Capital Projects Fund	Landfill Fund	Wastewater Fund	Water Fund	Equipment Revolving Fund	Special Assess - Revolving Fund	Total
\$ -	\$ 22,757	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,757
-	-	-	-	-	-	-	162,730
-	33,239	-	-	-	-	-	1,803,781
-	-	-	-	-	-	-	451,987
-	-	-	-	-	-	-	2,978,545
-	-	-	-	-	-	-	106,100
-	-	-	-	-	-	-	561,646
-	-	-	-	-	-	-	280,710
-	-	-	-	-	-	13,056	532,879
-	-	-	-	-	-	-	200,000
-	-	-	-	-	-	-	30,795
-	-	-	-	-	-	-	40,000
813,709	40,241	-	-	-	-	-	854,935
-	13,550	-	-	-	52,360	-	65,910
-	-	-	140,000	100,000	-	-	685,000
-	-	11,700	-	-	-	-	11,700
-	15,227	-	-	-	-	-	15,227
-	-	-	-	-	-	-	27,641
<u>\$ 813,709</u>	<u>\$ 125,014</u>	<u>\$ 11,700</u>	<u>\$ 140,000</u>	<u>\$ 100,000</u>	<u>\$ 52,360</u>	<u>\$ 13,056</u>	<u>\$ 8,832,343</u>

The composition of interfund balances as of June 30, 2007 was as follows:

Receivable Fund	Payable Fund	Amount
Special Assessment Revolving	Midland Housing	\$ 150,000
Community Development Block Grant	Midland Housing	125,109
Landfill	Civic Arena	<u>1,309,570</u>
Total		<u>\$ 1,584,679</u>

The balance owing from the Midland Housing Fund to the Community Development Block Grant (CDBG) Fund represents remaining balances on mortgages subsidized by the CDBG Fund. The remaining two resulted from loans made for working capital purposes.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

Governmental Activities	Beginning Balance	Infrastructure Adjustment (Note 18)	Restated Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:						
Land	\$ 3,416,798	\$ 1,479,987	\$ 4,896,785	\$ 184,600	\$ 6,166	\$ 5,075,219
Construction in progress	4,564,626	-	4,564,626	5,513,223	5,941,577	4,136,272
Total capital assets not being depreciated	7,981,424	1,479,987	9,461,411	5,697,823	5,947,743	9,211,491
Capital assets being depreciated:						
Major and local roads	13,062,395	31,541,933	44,604,328	5,229,106	-	49,833,434
Sidewalks	558,227	2,580,386	3,138,613	68,970	-	3,207,583
Buildings	23,043,028	-	23,043,028	1,691,383	66,142	24,668,269
Land improvements	4,760,839	14,891,833	19,652,672	1,980,759	-	21,633,431
Library circulation materials	6,682,469	-	6,682,469	455,607	412,522	6,725,554
Equipment	9,272,206	23,165	9,295,371	629,068	1,314,288	8,610,151
Vehicles	13,822,412	-	13,822,412	1,498,813	638,287	14,682,938
Total capital assets being depreciated	71,201,576	49,037,317	120,238,893	11,553,706	2,431,239	129,361,360
Total capital assets before depreciation	79,183,000	50,517,304	129,700,304	17,251,529	8,378,982	138,572,851
Less accumulated depreciation:						
Major and local roads	849,427	17,603,471	18,452,898	1,985,140	-	20,438,038
Sidewalks	28,897	1,678,973	1,707,870	143,334	-	1,851,204
Buildings	9,232,205	-	9,232,205	472,019	15,549	9,688,675
Land improvements	275,327	4,067,871	4,343,198	416,313	-	4,759,511
Library circulation materials	5,393,214	-	5,393,214	492,667	412,522	5,473,359
Equipment	7,213,117	12,741	7,225,858	515,476	1,310,967	6,430,367
Vehicles	7,639,272	-	7,639,272	1,279,409	611,562	8,307,119
Subtotal	30,631,459	23,363,056	53,994,515	5,304,358	2,350,600	56,948,273
Net capital assets being depreciated	40,570,117	25,674,261	66,244,378	6,249,348	80,639	72,413,087
Net governmental activities capital assets	\$ 48,551,541	\$ 27,154,248	\$ 75,705,789	\$ 11,947,171	\$ 6,028,382	\$ 81,624,578

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,316,680	\$ 62,274	\$ -	\$ 2,378,954
Construction in progress	1,289,918	3,394,922	2,301,909	2,382,931
Total capital assets not being depreciated	3,606,598	3,457,196	2,301,909	4,761,885
Capital assets being depreciated:				
Water and sewer lines	74,450,893	2,410,370	-	76,861,263
Buildings and building improvements	78,969,901	104,082	-	79,073,983
Land improvements	6,031,138	518,883	-	6,550,021
Landfill improvements	9,848,122	45,895	-	9,894,017
Equipment	5,818,464	427,191	701,008	5,544,647
Vehicles	735,469	4,836	8,794	731,511
Total capital assets being depreciated	175,853,987	3,511,257	709,802	178,655,442
Less accumulated depreciation:				
Water and sewer lines	24,997,511	1,533,889	-	26,531,400
Buildings and building improvements	29,187,816	1,624,367	-	30,812,183
Land improvements	1,137,719	126,477	-	1,264,196
Landfill improvements	6,851,403	391,577	-	7,242,980
Equipment	3,643,421	375,108	688,679	3,329,850
Vehicles	379,239	46,777	1,896	424,120
Total accumulated depreciation	66,197,109	4,098,195	690,575	69,604,729
Net capital assets being depreciated	109,656,878	(586,938)	19,227	109,050,713
Net business-type activities capital assets	\$ 113,263,476	\$ 2,870,258	\$ 2,321,136	\$ 113,812,598

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Depreciation expense charged to programs of the government follows:

Governmental activities:

General government	\$ 506,991
Public safety	340,778
Public works	3,099,167
Sanitation	70,251
Parks and recreation	338,067
Library	721,834
Airport	43,272
Transportation	172,860
Other functions	<u>11,138</u>
Total governmental activities	<u>\$ 5,304,358</u>

Business-type activities:

Civic Arena	\$ 322,966
Landfill	497,059
Real estate rental	439,315
Golf course	129,595
Parking system	38,383
Wastewater	1,454,327
Water	<u>1,216,550</u>
Total business-type activities	<u>\$ 4,098,195</u>

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects as of June 30, 2007. The projects include wastewater, sidewalk, storm sewer, street, and water system projects. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Wastewater projects	\$ 229,449	\$ 80,416
Sidewalk projects	110,140	25,519
Storm sewer projects	27,465	2,499
Street projects	3,779,459	1,654,367
Water system projects	78,387	276,242
Total	<u>\$ 4,224,900</u>	<u>\$ 2,039,043</u>

Note 6 - Restricted Assets

Enterprise Funds - Cash and cash equivalents are restricted within the Water and Wastewater Funds for future debt service obligations in the amounts of \$1,254,170 and \$917,765, respectively. Within each of these funds, an offsetting liability "payable from restricted assets" designates the separation of these assets from unreserved assets. In addition, the Landfill Fund has \$1,545,516 of restricted assets that are for closure and postclosure costs.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2007, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Grant money received in excess of expenses:		
Transportation Fund	\$ -	\$ 1,459
Community Development Block Grant Fund	-	21,875
Grant money earned but not received -		
Transportation Fund	85,683	-
Trust deeds	-	1,383,369
Total deferred/unearned for governmental funds	<u>\$ 85,683</u>	<u>\$ 1,406,703</u>

Note 8 - Leases

Operating Leases

The City leases its police administration facility and landfill equipment under non-cancelable operating leases. Total costs for such leases were \$328,027 for the year ended June 30, 2007. According to the terms of its lease with the Midland City/County Joint Building Authority, the City's obligation for operating leases amounts to 64.8 percent of total operating expenses of the police administration facility.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Leases (Continued)

The future minimum lease payments for these leases, including estimates of obligations under the police administration facility lease areas, are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2008	\$ 283,240
2009	217,007
2010	223,517
2011	230,223
2012	237,130
2013-2017	<u>1,296,724</u>
Total	<u>\$ 2,487,841</u>

Capital Leases

The City has entered into a lease agreement with the Midland City/County Joint Building Authority as lessee for financing the construction of police administration facilities. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The total cost of this lease was \$206,200 for the year ended June 30, 2007. Payments under this lease agreement for the year ended June 30, 2007 totaled \$206,200, including \$39,913 of interest charges.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Leases (Continued)

The future minimum lease obligation and net present value as of June 30, 2007 are as follows:

<u>Years Ending</u> <u>June 30</u>	<u>Amount</u>
2008	\$ 215,495
2009	207,530
2010	215,703
2011	223,005
2012	212,621
2013	<u>215,456</u>
Total minimum lease payments	1,289,810
Less amount representing interest	<u>125,587</u>
Present value of minimum lease payments	<u><u>\$ 1,164,223</u></u>

Note 9 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds, which are direct obligations and pledge the full faith and credit of the City, have been issued for both governmental and business-type activities. Revenue bonds involve a pledge of specific income derived from the acquired or constructed asset to pay debt service and have been issued for business-type activities. Also, for the governmental activities, compensated absences are generally liquidated by the General Fund.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 9 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
<u>General obligation bonds</u>							
1992 Downtown Development Amount of issue: \$600,000 Maturing through September 2007	5.65% - 6.05%	\$50,000 - \$100,000	\$ 175,000	\$ -	\$ (75,000)	\$ 100,000	\$ 100,000
Capital lease (Note 8)			1,330,510	-	(166,287)	1,164,223	-
Total bond and capital lease			1,505,510	-	(241,287)	1,264,223	100,000
<u>Other long-term obligations</u>							
Compensated absences			3,836,367	47,181	(61,988)	3,821,560	1,800,294
Property tax appeals contingency reserve refunds (Note 17)			31,661,170	-	(1,830,485)	29,830,685	14,612,192
Total other long-term obligations			35,497,537	47,181	(1,892,473)	33,652,245	16,412,486
Total governmental activities			37,003,047	47,181	(2,133,760)	34,916,468	16,512,486
Business-type Activities							
<u>General obligation bonds</u>							
2001 Sewer Construction: Amount of issue: \$13,600,000 Maturing through May 2021	4.50% - 5.25%	\$375,000 - \$1,100,000	2,750,000	-	(475,000)	2,275,000	525,000
2001 Sewer Construction - State Revolving Fund: Amount of issue: \$5,130,000 Borrowed as of 6/30/03: \$4,688,961 Maturing through April 2022		\$205,000 - \$320,000	4,144,063	-	(220,000)	3,924,063	230,000
2004 Civic Arena Amount of issue: \$6,500,000 Maturing through May 2030	2.50% - 4.75%	\$135,000 - \$490,000	6,055,000	-	(470,000)	5,585,000	490,000
Less deferred charge on defeasance			(617,516)	-	(41,167)	(576,349)	-
2005 Sewer Refunding Bonds Amount of issue: \$9,480,000 Maturing through May 2021	2.95% - 4.15%	\$135,000 - \$490,000	9,480,000	-	(60,000)	9,420,000	60,000
<u>Revenue bonds</u>							
2000 Water Rev Refunding: Amount of issue: \$12,190,000 Maturing through April 2010	4.80% - 5.30%	\$1,155,000 - \$1,390,000	4,620,000	-	(1,155,000)	3,465,000	1,155,000
Total bonds obligations			26,431,547	-	(2,421,167)	24,092,714	2,460,000
<u>Other long-term obligations</u>							
Compensated absences			761,604	39,607	(16,596)	784,615	344,074
Landfill closure and postclosure (Note 10)			3,022,000	-	(4,000)	3,018,000	-
Total other long-term obligations			3,783,604	39,607	(20,596)	3,802,615	344,074
Less current portion payable from restricted assets (Note 6)			1,910,000	60,000	-	1,970,000	1,970,000
Total business-type activities			28,305,151	(20,393)	(2,441,763)	25,925,329	834,074
Total governmental and business-type activities			\$ 65,308,198	\$ 26,788	\$ (4,575,523)	\$ 60,841,797	\$ 17,346,560

Note 9 - Long-term Debt (Continued)

The 1992 Downtown Development Bonds were issued pursuant to a tax increment financing plan and development plan for the Midland Downtown Development Area under authority of Act 197, Public Act of Michigan, 1975, as amended. The bonds were used to finance a portion of the Downtown Streetscape Project. The bonds are payable from tax increment revenues pursuant to the plan.

The 2001 Sewer Construction Bonds were approved by the voters in a general election held on February 22, 2000. The City Council has approved a resolution to levy a millage to pay approximately 60 percent of the principal and interest cost of these bonds. The 40 percent balance of the obligation is to be repaid by fees from the users of the municipal sanitary sewage collection and treatment system. The proceeds are being used for construction of sewer facilities recorded as construction in progress in the Wastewater Fund. On September 12, 2005, General Obligation Unlimited Tax Bonds were issued to refund \$9,025,000 of the outstanding bond.

On December 3, 2001, the City Council authorized issuance of general obligation limited tax bonds, series 2001, in the principal sum not to exceed \$5,130,000. The purpose of this issuance is to fund the construction of a storm water retention basin at the wastewater treatment plant. User fees will fund 40 percent of the principal and interest on these bonds, and the remaining 60 percent will be funded by a millage that the City will levy. The full faith and credit and the limited taxing power of the City are pledged for payment of the principal and interest thereon.

On August 9, 2004, the City Council approved the sale of \$6.5 million in limited tax general obligation bonds for the construction of a new civic arena. Annual principal payments range from \$135,000 to \$490,000, while annual interest payments range from 2.50 percent to 4.75 percent. The final payment will be made in the year 2030. The total cost of the civic arena project was approximately \$10.3 million, with the balance of the funding coming primarily from area foundations. The project was completed in the fall of 2005.

On September 13, 2005, the City issued \$9,480,000 of General Obligation Unlimited Tax Refund Bonds. The bonds were issued pursuant to resolutions adopted by the City Council on July 11, 2005 and August 22, 2005, and provide for an average interest rate of 3.95 percent. The proceeds of these bonds were used to advance refund \$9,025,000 of outstanding 2001 General Obligation Unlimited Bonds with an average interest rate of 5.07 percent.

The City has pledged its full faith and credit on the bonded indebtedness of the Saginaw-Midland Municipal Water Supply Corporation, a jointly owned raw water system described in Note 1 - Summary of Significant Accounting Policies.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 9 - Long-term Debt (Continued)

By statute, the City's general obligation debt is restricted to 10 percent of the equalized value of all property in the City. Certain obligations, such as water revenue refunding bonds, are not subject to this limitation. At June 30, 2007, the City's general obligation debt statutory and legal debt limit amounted to \$283,591,260 and the indebtedness subject to the limitation aggregated \$20,727,714.

Annual requirements to pay principal and interest on the long-term bonds and capital leases outstanding at June 30, 2007 are as follows:

Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 280,572	\$ 37,948	\$ 318,520	\$ 2,460,000	\$ 979,775	\$ 3,439,775
2009	178,018	29,512	207,530	2,145,000	876,189	3,021,189
2010	191,537	24,166	215,703	2,200,000	778,202	2,978,202
2011	204,573	18,432	223,005	1,095,000	676,828	1,771,828
2012	200,336	12,285	212,621	1,155,000	634,364	1,789,364
2013-2017	209,187	6,270	215,457	6,550,000	2,538,369	9,088,369
2018-2022	-	-	-	6,604,063	1,245,230	7,849,293
2023-2027	-	-	-	1,435,000	448,483	1,883,483
2028-2032	-	-	-	1,025,000	99,038	1,124,038
Total	<u>\$ 1,264,223</u>	<u>\$ 128,613</u>	<u>\$ 1,392,836</u>	<u>\$ 24,669,063</u>	<u>\$ 8,276,478</u>	<u>\$ 32,945,541</u>

Note 10 - Landfill Closure and Postclosure Care Cost

State and federal laws and regulations require the City to place a final cover on its sanitary landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$3,018,000 reported as landfill closure and postclosure care liability at June 30, 2007 represents the cumulative amount reported to date based on the use of 100 percent of the capacity of Area A (32 acres closed in 1993) and cells 1 through 14 (53 acres closed in 2004), and 44 percent of the estimated capacity of cell 15.

Note 10 - Landfill Closure and Postclosure Care Cost (Continued)

The City will recognize the remaining estimated cost of closure and postclosure care of \$542,894 as the remaining capacity of cell 15 is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in current dollars. The City expects to close cell 15 during the fiscal year ending June 2012. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements, and at June 30, 2007, cash and cash equivalents in the amount of \$1,545,516 were held for these purposes, reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

The City has also entered into an agreement to provide a letter of credit in favor of the State of Michigan to fulfill certain bonding requirements imposed upon the City, by Michigan law.

Note 11 - Pension Funds

Police and Fire Pension System

Plan Description - The Police and Fire Pension System is a single-employer defined benefit pension plan that is administered by the City of Midland Police and Fire Employees Retirement System. This plan covers all police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2006, the date of the most recent actuarial valuation, membership consisted of 106 retirees and beneficiaries currently receiving benefits, terminated employees entitled to benefits but not yet receiving them, and 91 current active employees. The plan does not issue a separate financial report.

Funding Policy - The obligation to contribute to and maintain the system for those employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 8 percent of gross wages from all employees.

Note 11 - Pension Funds (Continued)

The City's funding policy provides for biweekly employee contributions and monthly employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Annual Pension Cost - For the year ended June 30, 2007, the City's annual pension cost was \$1,477,650, which was equal to the City's required and actual contribution. The required employer contributions were determined as part of an actuarial valuation at December 31, 2005, using the entry age actuarial funding method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, compounded annually, (c) additional projected salary increases of up to 5.2 percent per year, attributable to seniority/merits and (d) no postretirement benefit increases other than 5 percent increases for Police Command members with 25 or more years at 5, 10, 15, and 20 years after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll contributions over 20 years.

Reserves - As of June 30, 2007, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 5,126,272
Reserve for employer contributions	16,607,659
Reserve for retired benefit payment	35,168,056

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Pension Funds (Continued)

Three-year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
2005	\$ 929,589	100	None
2006	1,290,917	100	None
2007	1,477,650	100	None

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio (Percent)	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/04	\$ 48,603,366	\$ 50,436,943	\$ 1,833,577	96	\$ 5,419,813	33.8
12/31/05	50,186,088	54,310,758	4,124,670	92	5,665,317	72.8
12/31/06	52,563,758	57,395,444	4,831,686	92	5,960,007	81.1

Municipal Employees' Retirement System of Michigan - Defined Benefit Retirement Plan

Plan Description - The City of Midland participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer, defined-benefit pension plan that covers substantially all employees of the City other than police and fire employees and employees hired on or after July 1, 2005. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the City's collective bargaining units and requires a contribution from the employees ranging from 0 percent to 5 percent of gross wages. The City's funding policy provides for quarterly employee and employer contributions at actuarially determined rates.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Pension Funds (Continued)

Annual Pension Cost - For the year ended June 30, 2007, the City's annual pension cost of \$2,495,316 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004 using the entry age actuarial funding method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, compounded annually, (c) additional projected salary increases of 0 percent to 4.16 percent per year, attributable to seniority/merit, and (d) the assumption that benefits will increase after retirement by 2.5 percent annually, non-compounded. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
2005	\$ 2,495,316	100	None
2006	2,332,776	100	None
2007	2,495,316	100	None

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio (Percent)	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/04	\$ 70,567,636	\$ 91,177,957	\$ 20,610,321	77	\$ 12,373,482	166.6
12/31/05	72,701,562	95,809,652	23,108,090	76	12,935,257	178.6
12/31/06	76,147,020	101,188,678	25,041,658	75	12,537,515	199.7

Note 11 - Pension Funds (Continued)

Municipal Employees' Retirement System of Michigan - Defined Contribution Retirement Plan

The City of Midland participates in the Municipal Employees' Retirement System of Michigan (MERS) defined contribution plan which is administered by ICMA for all employees hired on or after July 1, 2005, with the exception of police and fire employees. In the defined contribution plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City contributes 5 percent of the employee's gross earnings in the plan. The employee is fully vested after five years of service or at age 65.

The City's total payroll during the current year was \$23,075,943. The current year contribution was calculated based on covered payroll of \$1,106,855, resulting in an employer contribution of \$55,343.

International City/County Management Association (ICMA) - RC 457 - Deferred Compensation Plan

The City also participates in an ICMA-RC 457 deferred compensation plan for all employees hired on or after July 1, 2005, with the exception of police and fire employees. In the deferred compensation plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City will contribute up to 7 percent of the employee's wages with 100 percent matching of the employee wage contributions, in 1 percent increments.

The City's total payroll during the current year was \$23,075,943. The current year contribution was calculated based on covered payroll of \$1,122,716, resulting in an employer contribution of \$39,154 and employee contributions of \$39,154.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Pension Funds (Continued)

Condensed financial statements for the individual pension plans are as follows:

Statement of Plan Net Assets

	Police and Fire Pensions	Post- employment Health Care
Cash and investments	\$ 56,824,655	\$ 5,791
Other assets	<u>77,332</u>	<u>608</u>
Total assets	<u>\$ 56,901,987</u>	<u>\$ 6,399</u>

Statement of Changes in Plan Net Assets

	Police and Fire Pensions	Post- employment Health Care
Contributions	\$ 2,108,331	\$ 1,559,976
Investment income (net of expenses)	8,784,657	15,764
Deduction for benefit payments	<u>(3,228,713)</u>	<u>(1,829,659)</u>
Change in net assets	<u>\$ 7,664,275</u>	<u>\$ (253,919)</u>

Note 12 - Postemployment Benefits

The City of Midland provides postemployment healthcare coverage under a traditional insured plan to retired employees and their qualified spouses and other dependents, as mandated by collective bargaining agreements. Each agreement contains variations of the following general guidelines. Most employees fall into one of the following general groups:

The first group of employees will be enrolled in the comprehensive master medical plan available at the time of retirement. The City will pay 100 percent of the premium for retiree, spouse, and family.

The second group of employees will be eligible for continued medical coverage when they retire from the City, providing they pay 50 percent of the premium. The City will pay the other 50 percent.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 12 - Postemployment Benefits (Continued)

The third group, employees hired on or after July 1, 2005, excluding police and fire employees, will not be eligible to be included in the City's group health insurance plan. For those employees, the City will contribute 2 percent of the employee's wages into a healthcare savings program.

The City funds the retiree health insurance on a "pay as you go" basis. The net cost to the City of providing postemployment health care coverage follows:

Year	Number of Retirees	Amount
2007	317	\$ 5,083,814
2006	300	4,636,377
2005	301	3,993,508

During the fiscal year, the City of Midland transferred \$1,821,437 to Municipal Employees' Retirement System of Michigan (MERS) Retiree Health Funding Vehicle. MERS acts as a fiduciary, investing and managing funds for the future payment of postemployment healthcare coverage for the City of Midland.

Municipal Employees' Retirement System of Michigan - Health Care Savings Program

The City of Midland participates in the Municipal Employees' Retirement System of Michigan (MERS) healthcare savings program for all employees hired on or after July 1, 2005, with the exception of police and fire employees. In the healthcare savings program, benefits depend solely on the amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City contributes 2 percent of the employee's gross earnings in the program. The employee is fully vested after three years of service.

The City's total payroll during the current year was \$23,075,943. The current year contribution was calculated based on covered payroll of \$1,106,855, resulting in an employer contribution of \$22,137.

Note 12 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 13 - Claims, Litigation, and Other Contingencies

In the normal course of its activities, the City becomes a party in various legal actions. Although some actions have been brought for large amounts, the City has not generally experienced significant losses or cost. City management is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City.

The City has received several federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. City management believes such disallowances, if any, will be immaterial.

Note 14 - Enterprise Fund Contractual Revenue

The City supplies large quantities of water to Dow Chemical Company and Dow Corning Corporation under contractual arrangements with each company. Under the Dow Chemical Supplemental Agreement dated March 1, 1979, and Dow Corning Agreement dated July 15, 1985, the companies agree to pay for the variable cost of industrial grade water. In addition, the companies agree to pay a percentage of certain fixed costs, including the principal and interest costs on debt incurred by the City related to plant expansions necessary to meeting the companies’ special requirements. These fixed cost payments are due in monthly installments until the bonds are paid in full.

The payment percentage is based upon the cost of the facilities required to meet the companies’ exact capacity requirements relative to the total cost of the City’s initial capacity requirements.

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 14 - Enterprise Fund Contractual Revenue (Continued)

The percentage of the bond principal and interest payments reimbursed by each company follows:

	<u>Dow Chemical Company</u>	<u>Dow Corning Corporation</u>
1998 Saginaw-Midland - Water Revenue Refinancing Bonds	34.00	4.20
2000 Water Revenue Refinancing Bonds	37.976	4.667
2002 Saginaw-Midland - Water Revenue Refinancing Bond	34.00	4.20
2006 Saginaw-Midland - Water Revenue Bonds	34.00	4.20

Total payments received under these agreements during the fiscal year were \$1,028,027, consisting of principal and interest of \$790,725 and \$237,302, respectively. These payments have been recorded as nonoperating revenue in the City's Enterprise Funds. Under the terms of these agreements, no equity accrues to either company.

Under the terms of the agreement with Dow Chemical Company, the Water Fund shall retain in a Dow Chemical Emergency Repair and Maintenance Fund, \$25,000 to fund Dow's share of non-budgeted repair, replacement, or improvements.

Note 15 - Urban Cooperation Act Agreement

Effective December 30, 1992, the City entered into a 30-year interlocal public agency agreement with the Township of Midland, as authorized by the provisions of Public Act 7 of the Public Acts of the State of Michigan of 1967 (Ex Sess) [MSA 5.4088(1) et seq; MCLA 124.501 et seq].

The agreement provides for (1) the orderly and uncontested annexation to the City of certain property then located in the Township; (2) future sharing, through the year 2022, of revenues derived from the City's levy of property taxes on certain property to be annexed under the agreement; (3) beginning in September 1993, and continuing through the year 2012, the sharing of revenues derived from the City's levy of property taxes on certain commercial and industrial property already located within the City; and (4) extension, at City cost, of water and sewer services by the City to the Township boundary.

Note 15 - Urban Cooperation Act Agreement (Continued)

The City's obligation under provision 3 above, shall cease if and when total cumulative payments thereunder reach \$15,000,000. The amount of revenue sharing due to the Township by the City under this agreement during the year ended June 30, 2007 was \$365,508. The total cumulative payments from the City through June 30, 2006 were \$2,153,585.

Due to the tax appeals by the City's three largest taxpayers (see Note 17), the City and the Township have agreed to have the City hold back the portion of the Township's payments in relation to the additional millage levied for the tax appeal reserve. The amount recorded as a liability to the Township in the General Fund is \$2,002,279 as of June 30, 2007.

Note 16 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims, liability and property claims, airport liability and pension fiduciary liability claims, and participates in the Michigan Municipal Workers' Compensation Pool for employee injury claims.

The Michigan Municipal League risk pool programs operate as common risk-sharing/management programs for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 17 - Property Tax Appeals Contingency

In 1997, the City was presented with tax appeals from its three largest taxpayers: Midland Cogeneration Venture, Dow Chemical Company, and Dow Corning Corporation. Each year, since 1997, a significant portion of the City's budget process has been dedicated to providing funding to maintain reserves in both the General Fund and the Major Street Fund for possible tax refunds related to settlements of these cases.

Note 17 - Property Tax Appeals Contingency (Continued)

In October 2004, the City and Dow Corning Corporation reached a settlement that was approved by the Michigan Tax Tribunal. At the time of the settlement, the City had reserved approximately \$7.2 million and \$557,000 for possible refunds in the General Fund and Major Street Fund, respectively. The City refunded the Company approximately \$1.9 million from the General Fund, and returned the remaining \$5.3 million to all taxpayers in the form of a reduced millage in the 2005-2006 fiscal year. In addition, approximately \$117,000 was refunded from the Major Street Fund, with the balance becoming available to be allocated for other purposes.

In December 2006, the City and Dow Chemical Company also reached a settlement that was approved by the Michigan Tax Tribunal. At the time of settlement, the City had reserved approximately \$10.5 million in the General Fund and \$650,000 in the Major Street Fund for a possible refund. The City refunded Dow Chemical Company approximately \$9.1 million from the General Fund and re-allocated the remaining \$1.4 million for a possible refund relating to the Midland Cogeneration Venture appeal. The Major Street Fund refund to Dow Chemical Company approximated the amount held in reserve.

The City has been collecting additional millage to cover the tax appeals described above since 1997. The balance of these accumulated assets is adjusted annually through the budget process by increasing or decreasing millage. The City reserves assets for the net amount collected, less refunds made to the three taxpayers mentioned above.

A summary of all fund balances reserved for tax appeal contingency, as of June 30, 2007, follows:

General Fund - Fund balance	\$ 24,235,306
General Fund - Accounts payable	1,036,748
Major Street Fund - Fund balance	<u>2,647,615</u>
Total	<u>\$ 27,919,669</u>

City of Midland, Michigan

Notes to Financial Statements June 30, 2007

Note 17 - Property Tax Appeals Contingency (Continued)

On June 12, 2007, the City received a final settlement from the Michigan Tax Tribunal for the tax years 1997 through 2000 of the appeal with the Midland Cogeneration Venture. The final settlement included an order to issue a refund based upon the final taxable values as determined by the Michigan Tax Tribunal, with payment to be made within 90 days. Neither party appealed the decision. On September 10, 2007, the City issued a refund which included approximately \$13.7 million from the General Fund and \$1.1 million from the Major Street Fund. All remaining reserves are being held for possible refunds relating to the tax years 2001 forward, which still remain unsettled at this time. The next phase of litigation is scheduled to begin in July 2008.

The City's fund balances reserved for tax appeal contingency are based upon the MTT's prior opinion, from July 2004. In its June 2007 opinion, the MTT changed its position on two issues, causing the City's estimated liability to increase beyond its fund balance reserves by \$1,911,013.

The pending and potential refunds to the Midland Cogeneration Venture are reported in the government-wide financial statements as of June 30, 2007, as follows:

Due Within One Year	Due Beyond One Year	Total
\$14,612,192	\$15,218,493	\$29,830,685

Note 18 - Accounting and Reporting Changes

Retroactive Reporting of Governmental Activity Infrastructure

Net assets of the governmental activities were increased by \$27,154,248 as of July 1, 2006 to reflect the retroactive addition of infrastructure assets and accumulated depreciation acquired or constructed prior to 2002.

Note 18 - Accounting and Reporting Changes (Continued)

Change in Accounting for Trust Deeds

An accounting change from one acceptable method of GAAP to another was implemented for the reporting of trust deeds receivable and has been recorded as a prior period adjustment. Assets related to outstanding trust deeds receivable were previously reserved as a reservation of fund balance, and will now be reported as a liability, deferred revenue. With the application of the change in accounting, the reserved fund balance of \$1,531,967 at June 30, 2006 was reclassified as deferred revenue. As a result, beginning fund balance has been reduced from \$1,661,922 to \$129,955. This accounting change had the impact of reducing the net change in fund balance by \$34,121 for the year ended June 30, 2006 and by \$145,598 for the year ended June 30, 2007.

Correction of an Error

As discussed in Note 15 to the notes to financial statements, the City is holding back a portion of an annexation revenue-sharing obligation owed to Midland Township to offset potential costs the Township would incur in the form of a refund payment back to the City of Midland, in the event of a tax refund to the Midland Cogeneration Venture (see Note 17). This hold-back is reported as a fund liability. Also accrued on the City's government-wide financial statements is an estimated liability for the potential refund due to the Midland Cogeneration Venture resulting from the tax appeal. During the current year, it was recognized that a portion of the accumulated balance withheld from the Midland Township is also included in the accrued refund to Midland Cogeneration Venture, thus creating a double counting of liability for that portion.

To correct this error, accounts payable has been reduced by \$1,036,748 on the government-wide statement of net assets. Beginning net assets has been restated, increased by the portion occurring in prior years of \$932,552. Expenditures in the current year government-wide statement of changes in net assets have been reduced by \$104,196 to reflect the impact on the year ended June 30, 2007.

Required Supplemental Information

City of Midland, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 30,182,870	\$ 30,286,400	\$ 30,176,214	\$ (110,186)
Other tax-related revenue	1,149,200	1,172,500	1,245,590	73,090
Licenses and permits	416,550	396,620	435,488	38,868
Intergovernmental - Federal	82,677	90,677	54,378	(36,299)
Intergovernmental - Other	3,426,000	3,476,050	3,531,736	55,686
Charges for services	1,709,522	1,704,234	1,734,615	30,381
Use and admission charges	168,700	185,799	190,969	5,170
Investment earnings	1,825,000	2,202,968	2,687,964	484,996
Other revenues	864,424	856,379	935,363	78,984
Total revenues	39,824,943	40,371,627	40,992,317	620,690
Expenditures				
General government	4,968,964	4,976,402	4,392,228	584,174
Public safety	12,266,646	12,105,925	12,072,103	33,822
Public works	2,141,796	1,995,114	1,989,935	5,179
Sanitation	2,270,559	2,280,714	2,209,944	70,770
Parks and recreation	3,366,372	3,557,400	3,419,246	138,154
Airports	294,173	294,906	282,341	12,565
Tax appeal and related defense	1,650,250	11,104,394	10,080,498	1,023,896
Other functions	5,353,852	5,225,430	4,877,761	347,669
Capital improvements	706,324	697,231	371,825	325,406
Total expenditures	33,018,936	42,237,516	39,695,881	2,541,635
Excess of Revenues Over (Under) Expenditures	6,806,007	(1,865,889)	1,296,436	3,162,325
Other Financing Sources (Uses)				
Transfers in	-	21,901	22,757	856
Transfers out	(4,954,201)	(5,628,819)	(5,474,641)	154,178
Net Change in Fund Balance	1,851,806	(7,472,807)	(4,155,448)	3,317,359
Fund Balance - Beginning of year	37,713,498	37,713,498	37,713,498	-
Fund Balance - End of year	\$ 39,565,304	\$ 30,240,691	\$ 33,558,050	\$ 3,317,359

City of Midland, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Intergovernmental	\$ 3,225,000	\$ 4,181,301	\$ 3,869,020	(312,281)
Charges for services	105,452	154,686	179,638	24,952
Investment earnings	70,000	161,896	201,464	39,568
Other revenues	12,000	565,120	559,365	(5,755)
Total revenues	3,412,452	5,063,003	4,809,487	(253,516)
Expenditures				
Engineering	150,650	158,460	149,708	8,752
Roadway maintenance	222,091	178,920	135,386	43,534
Guardrail maintenance	5,394	15,342	11,844	3,498
Sweeping and flushing	126,733	134,834	138,265	(3,431)
Shoulder maintenance	12,615	11,487	7,125	4,362
Roadside drainage	88,394	82,736	81,308	1,428
Curb and gutter maintenance	35,628	43,255	23,335	19,920
Roadside cleanup	17,678	22,422	24,580	(2,158)
Bridge maintenance	-	339	339	-
Snow and ice control	393,700	404,689	450,104	(45,415)
Traffic services	426,677	430,611	431,707	(1,096)
Trunkline maintenance	105,452	154,686	134,527	20,159
Stormwater activities credit	(94,416)	(88,655)	(82,256)	(6,399)
Reserve for contingencies	20,000	10,000	-	10,000
Total expenditures	1,510,596	1,559,126	1,505,972	53,154
Excess of Revenues Over Expenditures	1,901,856	3,503,877	3,303,515	(200,362)
Other Financing Sources (Uses)				
Transfers in	721,000	1,443,730	1,443,730	-
Transfers out	(3,153,666)	(5,549,830)	(4,411,624)	1,138,206
Net Change in Fund Balance	(530,810)	(602,223)	335,621	937,844
Fund Balance - Beginning of year	1,118,595	1,118,595	1,118,595	-
Fund Balance - End of year	\$ 587,785	\$ 516,372	1,454,216	\$ 937,844

Reconciliation to include Major Street Construction Fund activity for government-wide and fund statements:

Fund Balance - Beginning of year	6,973,406
Revenue	1,872,134
Expenditures	(5,249,491)
Net transfers	1,695,930
Fund Balance - End of year	\$ 6,746,195

City of Midland, Michigan

Note to Required Supplemental Information Year Ended June 30, 2007

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Funds. All annual appropriations lapse at the end of the fiscal year.

On or before the second Monday in April, the city manager presents the proposed budget to the City Council for review. The City holds public hearings and a final budget must be prepared and adopted no later than the fourth Monday in May. During the current year, the budget was amended in a legally permissible manner.

The City Council approves the annual budget, which is prepared at the functional level.

Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders, contracts, and other commitments for the expenditure of monies) outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The City did not approve budgets for the General Construction Fund and the Cemetery Fund. Accordingly, no budget comparison schedules are provided for.

The City did not approve budgets for the Major Street Construction Fund and the Local Street Construction Fund. For the government-wide and fund financial statements, these two funds have been combined with the Major Street Fund and Local Street Fund, respectively. For the budgetary comparison schedules, the activity relating to these construction funds is shown in the reconciliation at the bottom of the budgetary comparison schedule for the Major Street Fund and Local Street Fund.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City of Midland incurred expenditures that were in excess of amounts budgeted. These unfavorable variances were caused by unanticipated expenditures that became necessary during the year. The significant budget overruns follow:

- **Major Street Fund** - Snow and ice control budget overrun of \$45,415 due to greater than anticipated ice control costs resulting from a larger than expected number of icy days requiring street salting
- **Transportation Fund** - Operations budget overrun of \$60,953 due to greater than anticipated vehicle maintenance costs

City of Midland, Michigan

Note to Required Supplemental Information Year Ended June 30, 2007

Note - Stewardship, Compliance, and Accountability (Continued)

- **Special Activities Fund** - Supplies budget overrun of \$17,034 due to higher than anticipated program costs relating to downtown events, fully funded by outside contributions
- **Midland Housing Fund** - Costs of assets sold budget overrun of \$254,247 resulting from expensing inventory costs for homes sold in prior fiscal years

City of Midland, Michigan

Required Supplemental Information Retirement Systems Schedule of Funding Progress Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/00	\$ 58,118,623	\$ 41,657,539	\$ (16,461,084)	139.5	\$ 4,469,249	-
12/31/01	58,752,348	44,458,293	(14,294,055)	132.2	4,939,281	-
12/31/02	55,073,738	47,343,528	(7,730,210)	116.3	5,534,596	-
12/31/03	51,008,034	49,478,634	(1,529,400)	103.1	5,582,280	-
12/31/04	48,603,366	50,436,943	1,833,577	96.4	5,419,813	33.8
12/31/05	50,186,088	54,310,758	4,124,670	92.4	5,665,317	72.8
12/31/06	52,563,758	57,395,444	4,831,686	91.6	5,960,007	81.1

City of Midland, Michigan

Retirement Systems Schedule of Employer Contributions Police and Fire Retirement System

Year Ended June 30	Annual Required Contribution	Actual Contribution	Percentage Contributed
2001	\$ 63,710	\$ 63,710	100.00
2002	-	-	100.00
2003	-	-	100.00
2004	194,061	194,061	100.00
2005	929,589	929,589	100.00
2006	1,290,917	1,290,917	100.00
2007	1,477,650	1,477,650	100.00

The information presented above was determined as part of the actuarial valuations at the date indicated. Additional information as of December 31, 2006, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Amortization period (perpetual)	20 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases*	4.5%
*Includes inflation at	4.5%
Additional salary increases attributable to seniority/merit	0% to 5.2%

Other Supplemental Information

City of Midland, Michigan

Other Supplemental Information Nonmajor Governmental Funds Year Ended June 30, 2007

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Local Street Fund - This fund accounts for the maintenance and construction of streets designated by the Michigan Department of Transportation as local streets.

Storm Water Management Fund - This fund accounts for storm sewer maintenance, open drain cleaning, and county drain assessments related to storm water management within the City.

Transportation Fund - This fund accounts for the City's Dial-A-Ride transportation system.

Grace A. Dow Memorial Library Fund - This fund accounts for library services revenue and a General Fund subsidy to be used for providing library services to the citizens of Midland.

Downtown Development Authority Fund - This fund accounts for property taxes levied by an authority established for the purpose of maintaining and renovating the downtown Midland area.

Community Development Block Grant Fund - This fund accounts for grant revenues from the Department of Housing and Urban Development to be used for residential and other capital improvements.

Cable Communications Fund - This fund accounts for franchise fees generated by an agreement with a local cable company to support two public access channels operated by the City.

Special Activities Fund - This fund accounts for various types of activities that are specifically funded by outside parties, not appropriate to be accounted for in any other Special Revenue Fund, and for which the City is the benefactor of those activities.

Midland Housing Fund - This fund is used to account for a housing rehabilitation trust, which was established by a local foundation.

City of Midland, Michigan

Other Supplemental Information Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

Debt Service Fund

The Debt Service Fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Capital Projects Fund

The General Construction Fund accounts for construction activities related to governmental non-street projects.

Permanent Fund

The Cemetery Fund is used to account for the Midland Cemetery perpetual care principal and interest earnings.

City of Midland, Michigan

Assets	Special Revenue Funds				
	Local Street	Stormwater Management	Transportation	Grace A. Dow Memorial Library	Downtown Development Authority
Cash and cash equivalents	\$ 1,834,601	\$ 138,802	\$ -	\$ 114,861	\$ 784,009
Receivables - Net of allowances for uncollectibles:					
Property taxes	-	-	-	-	70
Trust deeds	-	-	-	-	-
Accounts and contracts	-	701	1,570	4,693	-
Accrued interest	5,490	469	-	869	2,577
Due from other funds	-	-	-	-	-
Due from other governments	126,653	-	217,438	29,893	-
Inventories	-	-	-	-	-
Total assets	<u>\$ 1,966,744</u>	<u>\$ 139,972</u>	<u>\$ 219,008</u>	<u>\$ 150,316</u>	<u>\$ 786,656</u>
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ 66,796	\$ 4,326	\$ 53,629	\$ 58,785	\$ 5,035
Accrued salaries and wages	-	-	17,839	45,870	2,242
Due to other funds	-	-	-	-	-
Deposits	-	-	-	1,044	-
Deferred revenue	-	-	87,142	-	-
Total liabilities	<u>66,796</u>	<u>4,326</u>	<u>158,610</u>	<u>105,699</u>	<u>7,277</u>
Fund Balance					
Reserved for:					
Encumbrances	-	-	60,398	44,617	314,894
Special trust activities	-	-	-	-	-
Cemetery operations	-	-	-	-	-
Debt service	-	-	-	-	-
Housing activities	-	-	-	-	-
Unreserved:					
Designated for future year's expenditures	203,915	70,387	-	-	323,767
Undesignated	1,696,033	65,259	-	-	140,718
Total fund balance	<u>1,899,948</u>	<u>135,646</u>	<u>60,398</u>	<u>44,617</u>	<u>779,379</u>
Total liabilities and fund balance	<u>\$ 1,966,744</u>	<u>\$ 139,972</u>	<u>\$ 219,008</u>	<u>\$ 150,316</u>	<u>\$ 786,656</u>

**Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2007**

Special Revenue Funds				Debt Service Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
Community Development Block Grant	Cable Communications	Special Activities	Midland Housing	Debt Service	General Construction	Cemetery	
\$ 10,905	\$ 190,688	\$ 183,631	\$ 349,287	\$ 7,676	\$ 414,513	\$ 1,641,431	\$ 5,670,404
-	-	-	-	636	-	-	706
1,383,369	-	-	5,546	-	-	-	1,388,915
-	122,604	19,757	312,166	-	1,216	3,270	465,977
-	602	305	1,150	1,019	-	5,033	17,514
125,109	-	-	-	-	-	-	125,109
-	-	-	-	-	-	-	373,984
-	-	-	288,118	-	-	-	288,118
\$ 1,519,383	\$ 313,894	\$ 203,693	\$ 956,267	\$ 9,331	\$ 415,729	\$ 1,649,734	\$ 8,330,727
\$ 903	\$ 1,651	\$ -	\$ 85,863	\$ -	\$ 49,300	\$ -	\$ 326,288
-	6,000	-	-	-	-	-	71,951
-	-	-	275,109	-	-	-	275,109
-	-	25,442	-	-	-	-	26,486
1,405,244	-	-	-	-	-	-	1,492,386
1,406,147	7,651	25,442	360,972	-	49,300	-	2,192,220
-	8,500	-	-	-	-	-	428,409
-	-	178,251	-	-	-	-	178,251
-	-	-	-	-	-	1,649,734	1,649,734
-	-	-	-	9,331	-	-	9,331
-	-	-	595,295	-	-	-	595,295
-	-	-	-	-	-	-	598,069
113,236	297,743	-	-	-	366,429	-	2,679,418
113,236	306,243	178,251	595,295	9,331	366,429	1,649,734	6,138,507
\$ 1,519,383	\$ 313,894	\$ 203,693	\$ 956,267	\$ 9,331	\$ 415,729	\$ 1,649,734	\$ 8,330,727

City of Midland, Michigan

	Special Revenue Funds				
	Local Street	Stormwater Management	Transportation	Grace A. Dow Memorial Library	Downtown Development Authority
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 368,142
Licenses and permits	122,347	11,935	-	-	-
Intergovernmental - Federal	-	-	395,563	-	-
Intergovernmental - Other	772,126	-	685,413	60,026	-
Charges for services	-	-	139,091	753,083	-
Investment earnings	63,516	10,606	-	17,577	47,453
Contributions and other revenues	544	300	-	90,023	34,162
Total revenues	958,533	22,841	1,220,067	920,709	449,757
Expenditures					
Current:					
General government	-	-	-	-	-
Public works	1,238,077	639,326	-	-	-
Community development	-	-	-	-	365,960
Library	-	-	-	3,767,747	-
Transportation	-	-	1,651,533	-	-
Capital improvement	889,421	-	174,662	86,890	2,280
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	3,186	-	-
Total expenditures	2,127,498	639,326	1,829,381	3,854,637	368,240
Excess of Revenues Over (Under) Expenditures	(1,168,965)	(616,485)	(609,314)	(2,933,928)	81,517
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	-	-	-	-
Transfers in	1,803,781	451,987	561,646	2,978,545	-
Transfers out	(200,283)	(511)	-	-	(327,037)
Total other financing sources (uses)	1,603,498	451,476	561,646	2,978,545	(327,037)
Net Change in Fund Balances	434,533	(165,009)	(47,668)	44,617	(245,520)
Fund Balances - Beginning of year	1,465,415	300,655	108,066	-	1,024,899
Fund Balances - End of year	\$ 1,899,948	\$ 135,646	\$ 60,398	\$ 44,617	\$ 779,379

**Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2007**

Special Revenue Funds				Debt Service Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
Community Development Block Grant	Cable Communications	Special Activities	Midland Housing	Debt Service	General Construction	Cemetery	
\$ -	\$ -	\$ -	\$ -	\$ 583,492	\$ -	\$ -	\$ 951,634
-	-	-	-	-	-	-	134,282
221,806	-	-	-	-	-	-	617,369
-	-	10,976	-	-	20,898	-	1,549,439
-	497,063	-	-	-	98,754	-	1,487,991
-	5,458	4,815	22,025	23,977	-	82,635	278,062
75,724	1,984	80,622	-	-	9,911	28,995	322,265
297,530	504,505	96,413	22,025	607,469	129,563	111,630	5,341,042
-	437,376	74,417	-	-	-	-	511,793
-	-	-	-	-	-	-	1,877,403
207,144	-	-	364,995	-	-	-	938,099
-	-	-	-	-	-	-	3,767,747
-	-	-	-	-	-	-	1,651,533
-	5,665	-	-	-	791,674	-	1,950,592
-	-	-	-	75,000	-	-	75,000
-	-	-	-	8,975	-	-	12,161
207,144	443,041	74,417	364,995	83,975	791,674	-	10,784,328
90,386	61,464	21,996	(342,970)	523,494	(662,111)	111,630	(5,443,286)
31,437	-	-	51,380	-	-	-	82,817
-	106,100	-	27,641	280,710	532,879	-	6,743,289
(138,543)	-	(795)	-	(813,709)	(125,014)	-	(1,605,892)
(107,106)	106,100	(795)	79,021	(532,999)	407,865	-	5,220,214
(16,720)	167,564	21,201	(263,949)	(9,505)	(254,246)	111,630	(223,072)
129,956	138,679	157,050	859,244	18,836	620,675	1,538,104	6,361,579
\$ 113,236	\$ 306,243	\$ 178,251	\$ 595,295	\$ 9,331	\$ 366,429	\$ 1,649,734	\$ 6,138,507

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Local Street Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Intergovernmental	\$ 800,000	\$ 760,500	\$ 772,126	\$ 11,626
License and permit revenue	-	120,000	122,347	2,347
Investment earnings	20,000	49,886	63,516	13,630
Total revenues	820,000	930,386	957,989	27,603
Expenditures				
Engineering	74,750	75,525	65,145	10,380
Roadway maintenance	299,375	316,161	330,265	(14,104)
Guardrail maintenance	4,277	4,179	1,695	2,484
Sweeping and flushing	175,854	221,206	215,870	5,336
Shoulder maintenance	8,377	9,103	1,989	7,114
Roadside drainage	186,857	187,095	168,271	18,824
Curb and gutter maintenance	175,034	176,270	180,517	(4,247)
Roadside cleanup	12,005	11,947	5,758	6,189
Dust control	35,293	35,833	34,677	1,156
Snow and ice control	258,547	302,858	321,967	(19,109)
Traffic services	88,800	91,557	80,194	11,363
Stormwater activities credit	(186,857)	(187,095)	(168,271)	(18,824)
Reserve for contingencies	20,000	10,000	-	10,000
Total expenditures	1,152,312	1,254,639	1,238,077	16,562
Excess of Expenditures Over Revenues	(332,312)	(324,253)	(280,088)	44,165
Other Financing Sources (Uses)				
Transfers in	422,000	935,036	952,908	17,872
Transfers out	(218,107)	(219,108)	(200,283)	18,825
Net Change in Fund Balance	(128,419)	391,675	472,537	80,862
Fund Balance - Beginning of year	663,828	663,828	663,828	-
Fund Balance - End of year	<u>\$ 535,409</u>	<u>\$ 1,055,503</u>	1,136,365	<u>\$ 80,862</u>
Reconciliation to include Local Street Construction Fund activity for government-wide and fund financial statements:				
Fund balance - Beginning of year			801,587	
Revenues			544	
Expenditures			(889,421)	
Net transfers			850,873	
Fund balance - End of year			<u>\$ 1,899,948</u>	

City of Midland, Michigan

Other Supplemental Information

Budgetary Comparison Schedule - Stormwater Management Fund

Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Charges for services	\$ 25,000	\$ 19,500	\$ 11,935	\$ (7,565)
Investment earnings	18,000	12,500	10,606	(1,894)
Other revenues	-	-	300	300
Total revenues	43,000	32,000	22,841	(9,159)
Expenditures				
Administration	18,779	19,736	19,736	-
Open drain maintenance	30,365	19,445	10,567	8,878
Storm sewer maintenance	256,977	295,453	257,661	37,792
Inspection expenses	31,800	20,134	25,528	(5,394)
Storm sewer repair	53,797	68,772	67,975	797
Purchased services	281,273	275,750	256,716	19,034
Sump lead installation	9,855	3,488	1,143	2,345
Reserve for contingency	25,000	9,000	-	9,000
Total expenditures	707,846	711,778	639,326	72,452
Excess of Expenditures Over Revenues	(664,846)	(679,778)	(616,485)	63,293
Other Financing Sources (Uses)				
Transfers in	476,545	471,022	451,987	(19,035)
Transfers out	(30,000)	(20,512)	(511)	20,001
Net Change in Fund Balance	(218,301)	(229,268)	(165,009)	64,259
Fund Balance - Beginning of year	-	300,655	300,655	-
Fund Balance - End of year	<u>\$ (218,301)</u>	<u>\$ 71,387</u>	<u>\$ 135,646</u>	<u>\$ 64,259</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Transportation Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Use and admission charges	\$ 120,000	\$ 128,814	\$ 139,091	\$ 10,277
Intergovernmental - Federal	741,174	370,428	395,563	25,135
Intergovernmental - State	738,540	649,067	685,413	36,346
Total revenues	<u>1,599,714</u>	<u>1,148,309</u>	<u>1,220,067</u>	<u>71,758</u>
Expenditures				
Operations	1,221,694	1,273,725	1,333,527	(59,802)
Administration	123,394	109,433	113,515	(4,082)
Dispatching	134,186	129,809	132,073	(2,264)
Capital outlay	668,929	300,103	174,662	125,441
Other	77,500	75,250	75,604	(354)
Reserve for contingency	10,000	10,000	-	10,000
Total expenditures	<u>2,235,703</u>	<u>1,898,320</u>	<u>1,829,381</u>	<u>68,939</u>
Excess of Expenditures Over Revenues	<u>(635,989)</u>	<u>(750,011)</u>	<u>(609,314)</u>	<u>140,697</u>
Other Financing Sources - Transfers in	<u>635,989</u>	<u>641,945</u>	<u>561,646</u>	<u>(80,299)</u>
Net Change in Fund Balance	<u>-</u>	<u>(108,066)</u>	<u>(47,668)</u>	<u>60,398</u>
Fund Balance - Beginning of year	<u>108,066</u>	<u>108,066</u>	<u>108,066</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 108,066</u>	<u>\$ -</u>	<u>\$ 60,398</u>	<u>\$ 60,398</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Grace A. Dow Library Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
State aid	\$ 50,000	\$ 60,000	\$ 60,026	\$ 26
Library services	707,355	735,597	753,083	17,486
Investment earnings	13,066	15,000	17,577	2,577
Other revenues	<u>38,200</u>	<u>91,155</u>	<u>90,023</u>	<u>(1,132)</u>
Total revenues	<u>808,621</u>	<u>901,752</u>	<u>920,709</u>	<u>18,957</u>
Expenditures				
Personal services	2,372,915	2,324,497	2,313,161	11,336
Supplies	723,920	757,618	746,599	11,019
Other charges	780,465	727,548	707,987	19,561
Capital outlay	<u>91,500</u>	<u>132,725</u>	<u>86,890</u>	<u>45,835</u>
Total expenditures	<u>3,968,800</u>	<u>3,942,388</u>	<u>3,854,637</u>	<u>87,751</u>
Excess of Expenditures Over Revenues	(3,160,179)	(3,040,636)	(2,933,928)	106,708
Other Financing Sources - Transfers in	<u>3,160,179</u>	<u>3,040,636</u>	<u>2,978,545</u>	<u>(62,091)</u>
Net Change in Fund Balance	-	-	44,617	44,617
Fund Balance - Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,617</u>	<u>\$ 44,617</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Downtown Development Authority Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 360,262	\$ 365,554	\$ 368,142	\$ 2,588
Investment earnings	35,000	47,810	47,453	(357)
Other revenue	24,500	33,809	34,162	353
Total revenues	419,762	447,173	449,757	2,584
Expenditures				
Personal services	164,845	156,958	153,277	3,681
Supplies	6,105	6,105	5,155	950
Other charges	157,345	266,650	207,528	59,122
Capital expenditures	370,000	319,000	2,280	316,720
Total expenditures	698,295	748,713	368,240	380,473
Excess of Revenues Over (Under) Expenditures	(278,533)	(301,540)	81,517	383,057
Other Financing Uses - Transfers out	(123,975)	(327,037)	(327,037)	-
Net Change in Fund Balance	(402,508)	(628,577)	(245,520)	383,057
Fund Balance - Beginning of year	1,024,899	1,024,899	1,024,899	-
Fund Balance - End of year	<u>\$ 622,391</u>	<u>\$ 396,322</u>	<u>\$ 779,379</u>	<u>\$ 383,057</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Community Development Block Grant Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Federal grants	\$ 812,065	\$ 619,761	\$ 221,806	\$ (397,955)
Program income	85,000	85,000	75,724	(9,276)
Total revenues	897,065	704,761	297,530	(407,231)
Expenditures				
Administration	30,000	35,000	39,387	(4,387)
Residential home rehabs	163,422	126,150	93,257	32,893
Public services project	51,200	45,200	44,022	1,178
Affordable housing	30,000	-	9,400	(9,400)
Removal of architectural barriers	15,000	59,665	20,865	38,800
Environmental reviews	2,000	1,000	-	1,000
Neighborhood improvements	-	5,000	213	4,787
Land acquisition and infrastructure - Housing	419,000	35,100	-	35,100
Reserve for contingencies	9,800	-	-	-
Total expenditures	720,422	307,115	207,144	99,971
Excess of Revenues Over Expenditures	176,643	397,646	90,386	(307,260)
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	31,437	31,437
Transfers out	-	(365,000)	(138,543)	226,457
Net Change in Fund Balance	176,643	32,646	(16,720)	49,366
Fund Balance - Beginning of year	129,956	129,956	129,956	-
Fund Balance - End of year	<u>\$ 306,599</u>	<u>\$ 162,602</u>	<u>\$ 113,236</u>	<u>\$ 49,366</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Cable Communications Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Charges for services	\$ 446,500	\$ 473,210	\$ 497,063	\$ 23,853
Investment earnings	4,000	4,000	5,458	1,458
Other revenues	1,200	3,513	1,984	(1,529)
Total revenues	451,700	480,723	504,505	23,782
Expenditures				
Personal services	342,604	304,382	301,960	2,422
Supplies	20,200	15,723	10,032	5,691
Other charges	143,557	124,987	125,384	(397)
Reserve for contingencies	8,500	12,000	-	12,000
Capital outlay	3,000	6,483	5,665	818
Total expenditures	517,861	463,575	443,041	20,534
Excess of Revenues Over (Under) Expenditures	(66,161)	17,148	61,464	44,316
Other Financing Sources - Transfers in	106,100	106,100	106,100	-
Net Change in Fund Balance	39,939	123,248	167,564	44,316
Fund Balance - Beginning of year	138,679	138,679	138,679	-
Fund Balance - End of year	<u>\$ 178,618</u>	<u>\$ 261,927</u>	<u>\$ 306,243</u>	<u>\$ 44,316</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Special Activities Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Grant revenue	\$ 10,800	\$ 10,884	\$ 10,976	\$ 92
Contributions and other revenues	25,265	47,000	80,622	33,622
Investment earnings	1,575	4,000	4,815	815
Total revenues	37,640	61,884	96,413	34,529
Expenditures				
Supplies	15,500	18,000	35,034	(17,034)
Purchased services	2,000	27,000	28,292	(1,292)
Other charges	14,140	11,400	11,091	309
Total expenditures	31,640	56,400	74,417	(18,017)
Excess of Revenues Over Expenditures	6,000	5,484	21,996	16,512
Other Financing Uses - Transfers out	(5,000)	-	(795)	(795)
Net Change in Fund Balance	1,000	5,484	21,201	15,717
Fund Balance - Beginning of year	157,050	157,050	157,050	-
Fund Balance - End of year	<u>\$ 158,050</u>	<u>\$ 162,534</u>	<u>\$ 178,251</u>	<u>\$ 15,717</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Midland Housing Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues - Investment earnings	<u>\$ 13,500</u>	<u>\$ 20,000</u>	<u>\$ 22,025</u>	<u>\$ 2,025</u>
Expenditures				
Cost of assets sold	72,000	109,250	363,497	(254,247)
Warranty maintenance	<u>5,000</u>	<u>22,238</u>	<u>1,498</u>	<u>20,740</u>
Total expenditures	<u>77,000</u>	<u>131,488</u>	<u>364,995</u>	<u>(233,507)</u>
Excess of Expenditures Over Revenues	(63,500)	(111,488)	(342,970)	(231,482)
Other Financing Sources				
Proceeds from sale of assets	104,000	99,035	51,380	(47,655)
Transfers in	<u>-</u>	<u>-</u>	<u>27,641</u>	<u>27,641</u>
Net Change in Fund Balance	40,500	(12,453)	(263,949)	(251,496)
Fund Balance - Beginning of year	<u>859,244</u>	<u>859,244</u>	<u>859,244</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 899,744</u></u>	<u><u>\$ 846,791</u></u>	<u><u>\$ 595,295</u></u>	<u><u>\$ (251,496)</u></u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Debt Service Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 580,881	\$ 580,881	\$ 571,406	\$ (9,475)
Industrial facilities tax	12,162	12,162	12,086	(76)
Investment earnings	-	17,000	23,977	6,977
Total revenues	593,043	610,043	607,469	(2,574)
Expenditures				
Principal retirement - 1992 DDA bonds	75,000	75,000	75,000	-
Interest - 1992 DDA bonds	8,300	8,300	8,300	-
Paying agent fees	675	675	675	-
Total expenditures	83,975	83,975	83,975	-
Excess of Revenues Over Expenditures	509,068	526,068	523,494	(2,574)
Other Financing Sources (Uses)				
Transfers in	278,136	278,136	280,710	2,574
Transfers out	(813,709)	(813,709)	(813,709)	-
Net Change in Fund Balance	(26,505)	(9,505)	(9,505)	-
Fund Balance - Beginning of year	18,836	18,836	18,836	-
Fund Balance (Deficit) - End of year	<u>\$ (7,669)</u>	<u>\$ 9,331</u>	<u>\$ 9,331</u>	<u>\$ -</u>

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Year Ended June 30, 2007

Enterprise Funds

Enterprise Funds are used to account for operations financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

Golf Course Fund - This fund accounts for the operations of the Currie Municipal Golf Course.

Parking System Fund - This fund accounts for the operations of the City's metered and leased parking spaces and downtown parking structure.

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Combining Statement of Net Assets June 30, 2007

	Golf Course	Parking System	Total Nonmajor Proprietary Funds
Assets			
Current assets:			
Cash and cash equivalents	\$ 181,174	\$ 55,593	\$ 236,767
Investments	343,589	-	343,589
Receivables - Net of allowances for uncollectibles:			
Accounts and contracts	-	8,306	8,306
Accrued interest	-	161	161
Inventories	6,088	-	6,088
Total current assets	530,851	64,060	594,911
Property, plant, and equipment:			
Land and land improvements	4,830,415	1,158,415	5,988,830
Buildings and structure	1,333,219	1,413,000	2,746,219
Vehicles	76,716	-	76,716
Equipment	242,914	8,669	251,583
Total property, plant, and equipment	6,483,264	2,580,084	9,063,348
Accumulated depreciation	(1,420,212)	(722,795)	(2,143,007)
Net property, plant, and equipment	5,063,052	1,857,289	6,920,341
Total assets	5,593,903	1,921,349	7,515,252
Liabilities - Current liabilities - Accounts payable	43,766	154	43,920
Net Assets			
Investment in capital assets	5,063,052	1,857,289	6,920,341
Restricted	499,646	-	499,646
Unrestricted	(12,561)	63,906	51,345
Total net assets	\$ 5,550,137	\$ 1,921,195	\$ 7,471,332

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Combining Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Golf Course	Parking System	Total Nonmajor Proprietary Funds
Operating Revenues - Use and admission charges	\$ 885,917	\$ 87,495	\$ 973,412
Operating Expenses			
Operations	944,155	49,912	994,067
Maintenance	-	94,264	94,264
Depreciation	129,595	38,383	167,978
Total operating expenses	1,073,750	182,559	1,256,309
Net Operating Loss	(187,833)	(95,064)	(282,897)
Nonoperating Revenues (Expenses)			
Investment earnings	11,655	1,612	13,267
Interest expense	(16,832)	-	(16,832)
Other revenue	590,285	-	590,285
Total nonoperating revenues	585,108	1,612	586,720
Income (Loss) - Before operating transfers	397,275	(93,452)	303,823
Transfers In	-	40,000	40,000
Change in Net Assets	397,275	(53,452)	343,823
Net Assets - Beginning of year	5,152,862	1,974,647	7,127,509
Net Assets - End of year	<u>\$ 5,550,137</u>	<u>\$ 1,921,195</u>	<u>\$ 7,471,332</u>

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Combining Statement of Cash Flows Year Ended June 30, 2007

	Golf Course	Parking System	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 890,572	\$ 87,315	\$ 977,887
Payment to suppliers	(752,593)	(86,792)	(839,385)
Payment to employees	(496,975)	(36,585)	(533,560)
Net cash used in operating activities	(358,996)	(36,062)	(395,058)
Cash Flows from Noncapital Financing Activities			
Transfers in	-	40,000	40,000
Nonoperating revenues	549,957	-	549,957
Cash Flows from Capital and Related Financing Activities -			
Acquisition of capital assets	(4,610)	-	(4,610)
Cash Flows from Investing Activities -			
Investment earnings	(5,177)	1,592	(3,585)
Net Increase in Cash and Cash Equivalents	181,174	5,530	186,704
Cash and Cash Equivalents - Beginning of year	-	50,063	50,063
Cash and Cash Equivalents - End of year	<u>\$ 181,174</u>	<u>\$ 55,593</u>	<u>\$ 236,767</u>
Noncash Investing Activities - Changes in fair value of investments	<u>\$ 40,326</u>	<u>\$ -</u>	<u>\$ 40,326</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (187,833)	\$ (95,064)	\$ (282,897)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	129,595	38,383	167,978
Changes in operating assets and liabilities:			
Accounts receivable	4,655	(180)	4,475
Inventory	(6,088)	-	(6,088)
Prepays	-	21,000	21,000
Accounts payable	(299,325)	(201)	(299,526)
Net cash used in operating activities	<u>\$ (358,996)</u>	<u>\$ (36,062)</u>	<u>\$ (395,058)</u>

City of Midland, Michigan

Other Supplemental Information Fiduciary Funds Year Ended June 30, 2007

Trust Funds

Trust Funds are used to account for assets held by the City in a trustee capacity.

Police and Fire Pension Fund - This fund accounts for the accumulation of resources for, and the payment of, pension benefits.

Postemployment Health Care Fund - This fund accounts for revenues and expenses resulting primarily from the City's self-funding contributions toward postemployment healthcare benefits.

Agency Funds

Agency Funds are used to account for assets held by the City as an agent for individuals, organizations, or other governments.

Shopping Area Redevelopment Fund - The City acts as an agent for the financial management of this authority. This fund accounts for special assessments charged against property owners within the authority district for promotion of the area.

Tax Collection Fund - This fund is used to account for taxes collected on behalf of other governmental units.

DDA Façade Improvement Fund - This fund accounts for loans to businesses in the Downtown Development Authority business district. The funding for these loans was provided by a grant from the Rollin M. Gerstacker Foundation.

City of Midland, Michigan

Other Supplemental Information Pension and Other Employee Benefit Trust Funds Statement of Plan Net Assets June 30, 2007

	Police and Fire Pension	Post- employment Health Care	Total
Assets			
Cash and cash equivalents	\$ 2,372,832	\$ 5,791	\$ 2,378,623
Investments:			
Common stock	26,517,568	-	26,517,568
Preferred stock	1,363,562	-	1,363,562
Bonds	9,300,902	-	9,300,902
U.S. government securities	789,540	-	789,540
Mortgage and asset-backed securities	4,603,092	-	4,603,092
International funds	11,877,159	-	11,877,159
Receivables - Net of allowances for uncollectibles:			
Accounts and contracts	-	225	225
Accrued interest	77,332	383	77,715
Total assets	<u>\$ 56,901,987</u>	<u>\$ 6,399</u>	<u>\$ 56,908,386</u>
Net Assets			
Held in trust for pension benefits	\$ 56,901,987	\$ -	\$ 56,901,987
Held in trust for postemployment health benefits	-	6,399	6,399
Total net assets	<u>\$ 56,901,987</u>	<u>\$ 6,399</u>	<u>\$ 56,908,386</u>

City of Midland, Michigan

Other Supplemental Information Pension and Other Employee Benefit Trust Funds Statement of Changes in Plan Net Assets Year Ended June 30, 2007

	Police and Fire Pension	Post- employment Health Care	Total
Additions			
Contributions:			
Employer	\$ 1,477,650	\$ 1,559,976	\$ 3,037,626
Employee	630,681	-	630,681
Total contributions	2,108,331	1,559,976	3,668,307
Investment income:			
Net appreciation in fair value of assets	7,882,508	-	7,882,508
Interest	648,379	15,764	664,143
Dividends	584,553	-	584,553
Total investment income	9,115,440	15,764	9,131,204
Less investment expenses	(330,783)	-	(330,783)
Net investment income	8,784,657	15,764	8,800,421
Total additions	10,892,988	1,575,740	12,468,728
Deductions - Benefit payments	3,228,713	1,829,659	5,058,372
Change in Net Assets	7,664,275	(253,919)	7,410,356
Net Assets Held in Trust			
Beginning of year	49,237,712	260,318	49,498,030
End of year	<u>\$ 56,901,987</u>	<u>\$ 6,399</u>	<u>\$ 56,908,386</u>

City of Midland, Michigan

Other Supplemental Information Agency Funds Combining Statement of Changes in Plan Net Asset Year Ended June 30, 2007

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
<u>Shopping Area Redevelopment Authority</u>				
Assets				
Cash and cash equivalents	\$ 9,099	\$ 36,820	\$ 38,254	\$ 7,665
Accrued interest	31	223	227	27
Total assets	<u>\$ 9,130</u>	<u>\$ 37,043</u>	<u>\$ 38,481</u>	<u>\$ 7,692</u>
Liabilities				
Accounts payable	\$ 2,000	\$ 22,254	\$ 24,254	\$ -
Due to other governmental units	7,130	7,692	7,130	7,692
Total liabilities	<u>\$ 9,130</u>	<u>\$ 29,946</u>	<u>\$ 31,384</u>	<u>\$ 7,692</u>
<u>DDA Façade Improvement Fund</u>				
Assets				
Cash and cash equivalents	\$ -	\$ 108,391	\$ 18,527	\$ 89,864
Accounts receivable	-	15,000	-	15,000
Accrued interest	-	1,210	928	282
Total assets	<u>\$ -</u>	<u>\$ 124,601</u>	<u>\$ 19,455</u>	<u>\$ 105,146</u>
Liabilities				
Accounts payable	\$ -	\$ 18,527	\$ 18,527	\$ -
Due to foundations	-	108,673	3,527	105,146
Total liabilities	<u>\$ -</u>	<u>\$ 127,200</u>	<u>\$ 22,054</u>	<u>\$ 105,146</u>
<u>Tax Collection Fund</u>				
Assets				
Cash and cash equivalents	\$ -	\$ 91,630,208	\$ 91,630,087	\$ 121
Accounts and contracts	42,939	4,748,386	4,791,325	-
Total assets	<u>\$ 42,939</u>	<u>\$ 96,378,594</u>	<u>\$ 96,421,412</u>	<u>\$ 121</u>
Liabilities - Due to other governmental units				
	<u>\$ 42,939</u>	<u>\$ 96,378,594</u>	<u>\$ 96,421,412</u>	<u>\$ 121</u>
<u>Total All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 9,099	\$ 91,775,419	\$ 91,686,868	\$ 97,650
Accounts and contracts	42,939	4,763,386	4,791,325	15,000
Accrued interest	31	1,433	1,155	309
Total assets	<u>\$ 52,069</u>	<u>\$ 96,540,238</u>	<u>\$ 96,479,348</u>	<u>\$ 112,959</u>
Liabilities				
Accounts payable	\$ 2,000	\$ 40,781	\$ 42,781	\$ -
Due to foundations	-	108,673	3,527	105,146
Due to other governmental funds	50,069	96,386,286	96,428,542	7,813
Total liabilities	<u>\$ 52,069</u>	<u>\$ 96,535,740</u>	<u>\$ 96,474,850</u>	<u>\$ 112,959</u>

City of Midland, Michigan

Other Supplemental Information Internal Service Funds Year Ended June 30, 2007

Internal Service Funds

Internal Service Funds are used to account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

Data Processing Fund - This fund accounts for the operations of the City's Information Services Department.

Equipment Revolving Fund - This fund accounts for the rental charges of City-owned equipment to other City departments.

Service Center Rental Fund - This fund accounts for the operations of the City's Service Center building.

Insurance Claims Fund - This fund accounts for insurance expenses resulting from property and liability claims.

Special Assessment Revolving Fund - This fund accounts for the funding of the City's special assessment projects.

Geographic Information System Fund - This fund accounts for the operations of the City's geographic information system.

City of Midland, Michigan

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,614,382	\$ 1,626,907	\$ 767,684
Receivables:			
Accounts and contracts	-	-	-
Special assessments - Current	-	-	-
Accrued interest	4,972	5,766	2,347
Due from other funds	-	-	-
Inventories	-	356,147	-
Prepaid items	-	-	-
Total current assets	<u>1,619,354</u>	<u>1,988,820</u>	<u>770,031</u>
Special assessments - Long-term	-	-	-
Property, plant, and equipment:			
Land and land improvements	-	-	55,000
Buildings and structures	-	29,493	3,077,268
Vehicles	-	13,537,432	-
Equipment	<u>1,518,016</u>	<u>669,633</u>	<u>125,446</u>
Total property, plant, and equipment	<u>1,518,016</u>	<u>14,236,558</u>	<u>3,257,714</u>
Accumulated depreciation	<u>(1,127,714)</u>	<u>(8,215,415)</u>	<u>(2,366,704)</u>
Net property, plant, and equipment	<u>390,302</u>	<u>6,021,143</u>	<u>891,010</u>
Total assets	<u>2,009,656</u>	<u>8,009,963</u>	<u>1,661,041</u>
Liabilities			
Accounts payable	5,659	90,172	29,092
Accrued salaries and wages	11,544	24,006	196
Accrued compensated absences - Current	74,389	59,366	-
Accrued compensated absences - Noncurrent	<u>11,593</u>	<u>27,936</u>	<u>-</u>
Total liabilities	<u>103,185</u>	<u>201,480</u>	<u>29,288</u>
Net Assets			
Invested in capital assets	390,302	6,021,143	891,010
Unrestricted	<u>1,516,169</u>	<u>1,787,340</u>	<u>740,743</u>
Total net assets	<u>\$ 1,906,471</u>	<u>\$ 7,808,483</u>	<u>\$ 1,631,753</u>

Other Supplemental Information
Internal Service Funds
Combining Statement of Net Assets
June 30, 2007

Insurance Claims Fund	Special Assessment Revolving Fund	Geographical Information Systems	Totals
\$ 888,095	\$ 1,863,494	\$ 411,274	\$ 7,171,836
7,572	-	-	7,572
-	66,958	-	66,958
-	5,574	1,326	19,985
-	150,000	-	150,000
-	-	-	356,147
25,000	-	-	25,000
920,667	2,086,026	412,600	7,797,498
-	262,860	-	262,860
-	-	-	55,000
-	-	-	3,106,761
-	-	-	13,537,432
-	-	160,815	2,473,910
-	-	160,815	19,173,103
-	-	(45,511)	(11,755,344)
-	-	115,304	7,417,759
920,667	2,348,886	527,904	15,478,117
6,275	-	2,052	133,250
-	-	3,774	39,520
-	-	4,708	138,463
-	-	3,944	43,473
6,275	-	14,478	354,706
-	-	115,304	7,417,759
914,392	2,348,886	398,122	7,705,652
<u>\$ 914,392</u>	<u>\$ 2,348,886</u>	<u>\$ 513,426</u>	<u>\$ 15,123,411</u>

City of Midland, Michigan

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Operating Revenues			
Charges for services - Internal	\$ 1,132,522	\$ 85,672	\$ -
Miscellaneous	-	69,812	-
Rental	-	3,065,566	310,000
Total operating revenues	<u>1,132,522</u>	<u>3,221,050</u>	<u>310,000</u>
Operating Expenses			
Operations	1,061,506	2,677,970	238,260
Depreciation	<u>169,089</u>	<u>1,187,047</u>	<u>58,406</u>
Total operating expenses	<u>1,230,595</u>	<u>3,865,017</u>	<u>296,666</u>
Net Operating Income (Loss)	<u>(98,073)</u>	<u>(643,967)</u>	<u>13,334</u>
Nonoperating Revenues (Expenses)			
Investment earnings	79,427	106,601	38,866
Gain on disposal of assets	9,743	99,812	-
Miscellaneous revenue	14,834	15,759	-
Miscellaneous expenses	<u>-</u>	<u>(49,800)</u>	<u>-</u>
Total nonoperating revenues	<u>104,004</u>	<u>172,372</u>	<u>38,866</u>
Income (Loss) - Before capital contributions and operating transfers	5,931	(471,595)	52,200
Capital Contributions	1,310	257,300	-
Transfers In	-	11,700	-
Transfers Out	<u>-</u>	<u>(52,360)</u>	<u>-</u>
Change in Net Assets	7,241	(254,955)	52,200
Net Assets - Beginning of year	<u>1,899,230</u>	<u>8,063,438</u>	<u>1,579,553</u>
Net Assets - End of year	<u><u>\$ 1,906,471</u></u>	<u><u>\$ 7,808,483</u></u>	<u><u>\$ 1,631,753</u></u>

Other Supplemental Information
Internal Service Funds
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2007

Insurance Claims Fund	Special Assessment Revolving Fund	Geographical Information Systems	Total
\$ 845,283	\$ -	\$ -	\$ 2,063,477
-	13,056	-	82,868
-	-	-	3,375,566
<u>845,283</u>	<u>13,056</u>	<u>-</u>	<u>5,521,911</u>
788,319	8,936	401,688	5,176,679
-	-	32,628	1,447,170
<u>788,319</u>	<u>8,936</u>	<u>434,316</u>	<u>6,623,849</u>
<u>56,964</u>	<u>4,120</u>	<u>(434,316)</u>	<u>(1,101,938)</u>
-	105,388	18,280	348,562
-	-	-	109,555
14,264	-	-	44,857
-	-	-	(49,800)
<u>14,264</u>	<u>105,388</u>	<u>18,280</u>	<u>453,174</u>
71,228	109,508	(416,036)	(648,764)
-	-	-	258,610
-	15,227	685,000	711,927
-	(13,056)	-	(65,416)
<u>71,228</u>	<u>111,679</u>	<u>268,964</u>	<u>256,357</u>
<u>843,164</u>	<u>2,237,207</u>	<u>244,462</u>	<u>14,867,054</u>
<u>\$ 914,392</u>	<u>\$ 2,348,886</u>	<u>\$ 513,426</u>	<u>\$ 15,123,411</u>

City of Midland, Michigan

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,132,822	\$ 3,221,050	\$ 310,000
Payment to suppliers	(493,273)	(1,307,577)	(193,657)
Payment to employees	(605,914)	(1,405,773)	(18,253)
Net cash provided by (used in) operating activities	33,635	507,700	98,090
Cash Flows from Noncapital Financing Activities			
Transfers in (out)	-	(40,660)	-
Nonoperating expenses	14,834	(34,041)	-
Net cash provided by (used in) noncapital financing activities	14,834	(74,701)	-
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(93,277)	(1,043,789)	(54,268)
Proceeds from sale of capital assets	9,743	99,812	-
Net cash provided by (used in) capital and related financing activities	(83,534)	(943,977)	(54,268)
Cash Flows from Investing Activities - Investment earnings	79,082	107,631	38,511
Net Increase (Decrease) in Cash and Cash Equivalents	44,017	(403,347)	82,333
Cash and Cash Equivalents - Beginning of year	1,570,365	2,030,254	685,351
Cash and Cash Equivalents - End of year	\$ 1,614,382	\$ 1,626,907	\$ 767,684
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (98,073)	\$ (643,967)	\$ 13,334
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	169,089	1,187,047	58,406
Changes in operating assets and liabilities:			
Accounts receivable	300	-	-
Inventory	-	(70,962)	-
Accounts payable	2,822	48,507	26,392
Accrued salaries and wages	(944)	(516)	(42)
Compensated absences, death benefits, and	(39,559)	(12,409)	-
Net cash provided by (used in) operating activities	\$ 33,635	\$ 507,700	\$ 98,090

Other Supplemental Information
Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2007

Insurance Claims Fund	Special Assessment Revolving Fund	GIS Fund	Total
\$ 901,159	\$ 106,300	\$ -	\$ 5,671,331
(783,650)	(8,936)	(296,765)	(3,083,858)
-	-	(150,127)	(2,180,067)
<u>117,509</u>	<u>97,364</u>	<u>(446,892)</u>	<u>407,406</u>
-	2,171	685,000	646,511
<u>14,264</u>	<u>-</u>	<u>-</u>	<u>(4,943)</u>
<u>14,264</u>	<u>2,171</u>	<u>685,000</u>	<u>641,568</u>
-	-	(57,746)	(1,249,080)
<u>-</u>	<u>-</u>	<u>-</u>	<u>109,555</u>
<u>-</u>	<u>-</u>	<u>(57,746)</u>	<u>(1,139,525)</u>
<u>-</u>	<u>99,814</u>	<u>16,954</u>	<u>341,992</u>
131,773	199,349	197,316	251,441
<u>756,322</u>	<u>1,664,145</u>	<u>213,958</u>	<u>6,920,395</u>
<u>\$ 888,095</u>	<u>\$ 1,863,494</u>	<u>\$ 411,274</u>	<u>\$ 7,171,836</u>
\$ 56,964	\$ 4,120	\$ (434,316)	\$ (1,101,938)
-	-	32,628	1,447,170
55,876	93,244	-	149,420
-	-	-	(70,962)
4,669	-	(49,042)	33,348
-	-	246	(1,256)
<u>-</u>	<u>-</u>	<u>3,592</u>	<u>(48,376)</u>
<u>\$ 117,509</u>	<u>\$ 97,364</u>	<u>\$ (446,892)</u>	<u>\$ 407,406</u>

Statistical Section

Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplemental information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

Sources - Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

City of Midland, Michigan

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Midland, Michigan

Net Assets by Component

	June 30			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental Activities:				
Invested in capital assets, net of related debt	\$ 34,482,454	\$ 42,571,216	\$ 47,046,031	\$ 80,360,355
Restricted	9,585,916	11,839,822	11,499,338	9,511,932
Unrestricted	<u>15,239,997</u>	<u>14,477,245</u>	<u>11,049,423</u>	<u>9,230,043</u>
Total net assets	<u>59,308,367</u>	<u>68,888,283</u>	<u>69,594,792</u>	<u>99,102,330</u>
Business-type Activities:				
Invested in capital assets, net of related debt	77,971,667	80,266,457	86,214,413	89,719,884
Restricted	1,219,000	1,219,000	1,219,000	1,219,000
Unrestricted	<u>25,926,545</u>	<u>26,174,456</u>	<u>25,467,911</u>	<u>27,082,975</u>
Total net assets	<u>105,117,212</u>	<u>107,659,913</u>	<u>112,901,324</u>	<u>118,021,859</u>
Primary Government in Total:				
Invested in capital assets, net of related debt	112,454,121	122,837,673	133,260,444	170,080,239
Restricted	10,804,916	13,058,822	12,718,338	10,730,932
Unrestricted	<u>41,166,542</u>	<u>40,651,701</u>	<u>36,517,334</u>	<u>36,313,018</u>
Total net assets	<u>\$ 164,425,579</u>	<u>\$ 176,548,196</u>	<u>\$ 182,496,116</u>	<u>\$ 217,124,189</u>

Note: The City adopted GASB No. 34 during fiscal year 2002-2003 and began reporting a government-wide statement of net assets.

Source: City's Comprehensive Annual Financial Report

City of Midland, Michigan

Changes in Governmental Net Assets

	Fiscal Year Ended June 30			
	2004	2005	2006	2007
Expenses				
General government	\$ 3,923,677	\$ 3,062,737	\$ 4,099,371	\$ 4,195,610
Public safety	9,711,488	10,987,667	11,683,717	13,532,496
Public works	6,905,679	5,075,325	6,475,722	9,917,048
Community development	727,679	403,039	642,882	972,214
Sanitation	2,238,911	2,088,026	2,368,344	2,449,784
Parks and recreation	4,021,471	3,893,440	3,545,585	3,828,814
Library	4,395,461	4,407,303	3,818,728	4,389,127
Airport	225,844	196,857	192,581	292,130
Transportation	1,506,906	1,517,410	1,698,174	1,753,572
Tax roll adjustment	-	-	-	7,248,312
Tax appeal defense	4,532,256	6,451,758	1,977,046	896,490
Other functions	3,876,951	4,589,005	4,447,380	-
Interest and fiscal agent fees	28,916	191,568	13,438	8,975
Total expenses	42,095,239	42,864,135	40,962,968	49,484,572
Program revenues:				
Charges for services:				
General government	247,868	154,811	625,939	611,934
Public safety	861,223	849,783	877,505	690,268
Public works	205,493	306,035	288,910	535,549
Community development	114,000	30,123	51,212	31,930
Sanitation	157,230	158,461	171,911	172,649
Parks and recreation	769,802	997,876	218,591	219,964
Library	735,818	616,097	765,295	755,214
Airport	15,933	75,089	108,675	186,586
Transportation	119,249	119,672	137,465	139,091
Tax appeal defense	-	-	-	-
Other functions	433,453	448,750	-	75,724
Interest and fiscal agent fees	-	-	-	-
Total charges for services	3,660,069	3,756,697	3,245,503	3,418,909
Operating grants and contributions	5,266,394	5,225,190	5,454,669	5,693,288
Capital grants and contributions	1,574,935	2,593,611	2,034,627	3,591,053
Total program revenue	10,501,398	11,575,498	10,734,799	12,703,250
Net Expense	(31,593,841)	(31,288,637)	(30,228,169)	(36,781,322)
General revenues:				
Property taxes	29,155,614	36,033,726	26,518,333	32,484,991
Other tax-related revenue	1,209,761	1,144,431	1,153,613	1,245,590
Intergovernmental	3,655,371	3,654,624	3,667,075	3,531,736
Investment earnings	1,223,337	1,567,420	2,947,591	3,389,149
Miscellaneous revenues	149,312	308,300	45,993	22,435
Gain on sale of capital assets	-	-	-	-
Transfers	(2,117,915)	(1,830,711)	(3,397,927)	(939,940)
Special items - Gain on sale of equity interests	453,613	-	-	-
Total general revenues, transfers, and special items	33,729,093	40,877,790	30,934,678	39,733,961
Change in Net Assets	\$ 2,135,252	\$ 9,589,153	\$ 706,509	\$ 2,952,639

Note: The City adopted GASB No. 34 during fiscal year 2002-2003 and began reporting a government-wide statement of net assets.

Source: City's Comprehensive Annual Financial Report

City of Midland, Michigan

Changes in Business-type Net Assets

	Fiscal Year Ended June 30			
	2004	2005	2006	2007
Operating revenue:				
Wastewater service charges	\$ 3,992,174	\$ 4,271,674	\$ 4,513,338	\$ 4,588,778
Water sales	6,850,399	7,220,106	7,391,171	7,568,017
Landfill use and admission charges	3,766,356	3,120,726	3,217,430	5,041,271
Civic Arena use and admission charges	-	-	1,041,763	1,056,417
Other use and admission charges	807,729	843,179	895,375	973,412
Rentals	2,468,774	2,558,359	2,607,737	2,537,277
Fines and forfeits	118,718	122,155	129,202	155,999
Total operating revenue	18,004,150	18,136,199	19,796,016	21,921,171
Operating expenses:				
Water	3,406,247	3,480,308	3,192,318	4,006,050
Wastewater	980,128	966,934	1,023,045	1,074,122
Real estate rental	1,941,481	1,997,522	2,041,420	2,191,683
Landfill	1,982,880	2,697,045	1,979,811	2,010,992
Civic Arena	-	-	1,028,812	1,130,306
Other operating	952,388	837,210	873,204	994,067
Administration	1,296,355	1,661,561	1,704,422	1,674,995
Maintenance	3,207,459	3,757,473	3,912,321	3,950,384
Depreciation	3,442,725	3,852,093	3,660,043	4,098,194
Total operating expenses	17,209,663	19,250,146	19,415,396	21,130,793
Operating Income (Loss)	794,487	(1,113,947)	380,620	790,378
Nonoperating revenue (expenses):				
Investment earnings (losses)	339,423	349,012	646,856	957,061
Gain from investment in joint venture	121,970	284,786	435,216	-
Contractual revenues	1,196,491	1,135,813	1,041,852	1,073,493
Profit (loss) on disposition of assets	(2,769)	(52,417)	(44,189)	45,261
Sales of meals - Revenue	418,638	419,982	415,676	421,969
Contributions	-	-	-	1,859,744
Sales of meals - Expenses	(579,520)	(561,079)	(544,872)	(572,855)
Miscellaneous revenue	318,598	697,071	679,281	1,289,869
Interest expense	(1,354,083)	(1,180,224)	(1,349,648)	(1,200,867)
Miscellaneous expense	(518,130)	(634,980)	(944,729)	(976,105)
Total nonoperating revenues (expenses)	(59,382)	457,964	335,443	2,897,570
Income (Loss) - Before Contributions and Transfers	735,105	(655,983)	716,063	3,687,948
Capital contributions	1,682,025	1,137,555	2,449,257	887,254
Operating transfers in	2,117,915	1,830,711	4,360,745	1,191,640
Operating transfers out	-	-	(1,957,809)	(251,700)
Change in Net Assets	4,535,045	2,312,283	5,568,256	5,515,142
Some amounts reported for business-type activities in the statement of activities are different because of net revenue (expense) of certain internal services is reported with business-type activities.	1,372,850	230,418	108,371	(394,607)
Change in Net Assets of Business-type Activities	\$ 5,907,895	\$ 2,542,701	\$ 5,676,627	\$ 5,120,535
Total Primary Government Changes in Net Assets	\$ 8,043,147	\$ 12,131,854	\$ 6,383,136	\$ 8,073,174

Note: a. The City adopted GASB No. 34 during fiscal year 2002-2003 and began reporting a government-wide statement of net assets.

b. During fiscal year 2005-2006, the Civic Arena Fund was added as a proprietary fund.

Source: City's Comprehensive Annual Financial Report

City of Midland, Michigan

	1998	1999	2000
General Fund:			
Reserved	\$ 6,828,034	\$ 13,895,811	\$ 20,849,242
Unreserved	<u>6,421,683</u>	<u>5,660,279</u>	<u>6,805,541</u>
Total General Fund	13,249,717	19,556,090	27,654,783
All other governmental funds:			
Reserved	2,661,464	2,544,780	4,035,725
Unreserved, reported in:			
Special Revenue Funds	2,168,917	2,901,651	2,977,583
Capital Project Funds	(66,516)	-	-
Debt Service Funds	<u>3,872</u>	<u>3,624</u>	<u>5,807</u>
Total all other governmental funds	<u>\$ 18,017,454</u>	<u>\$ 25,006,145</u>	<u>\$ 34,673,898</u>

Notes:

- (a) The City established a tax appeal reserve within the General Fund during fiscal year 1997-1998. See Notes to Financial Statements.
- (b) During fiscal year 2001-2002, the Storm Water Management Fund was reclassified from an Enterprise Fund to a Special Revenue Fund.
- (c) The City adopted GASB No. 34 during fiscal year 2002-2003. Beginning fund balances were restated to reflect the implementation.
- (d) During fiscal year 2002-2003, the Transportation Fund was reclassified from a proprietary fund to a Special Revenue Fund. The 2002-2003 beginning fund balance has been restated to reflect the change.
- (e) During fiscal year 2003-2004, the Special Assessment Revolving Fund was reclassified as an Internal Service Fund to properly reflect activity. The 2003-2004 beginning fund balance has been restated to reflect this change.
- (f) 2004-2005 beginning fund balance has been restated to reflect prior year adjustment of \$9,228.

Source: City's Comprehensive Annual Financial Report

Fund Balances - Governmental Funds

2001	2002	2003	2004	2005	2006	2007
\$ 30,213,730	\$ 37,272,928	\$ 38,033,797	\$ 41,711,287	\$ 39,525,290	\$ 32,321,210	\$ 26,171,316
<u>6,491,633</u>	<u>4,657,134</u>	<u>6,872,226</u>	<u>5,619,677</u>	<u>862,970</u>	<u>5,392,288</u>	<u>7,386,734</u>
36,705,363	41,930,062	44,906,023	47,330,964	40,388,260	37,713,498	33,558,050
7,970,477	10,539,100	9,836,063	6,583,221	6,133,899	6,457,181	5,678,635
2,872,816	2,455,937	2,610,688	9,353,608	9,151,988	9,528,365	6,839,638
-	-	-	470,031	912,267	-	366,429
<u>21,901</u>	<u>22,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 47,570,557</u>	<u>\$ 54,947,725</u>	<u>\$ 57,352,774</u>	<u>\$ 63,737,824</u>	<u>\$ 56,586,414</u>	<u>\$ 53,699,044</u>	<u>\$ 46,442,752</u>

City of Midland, Michigan

	1998	1999	2000
Revenue			
Property taxes	\$ 24,630,474	\$ 25,091,737	\$ 27,286,249
Other tax-related revenue	998,470	995,647	1,067,420
Licenses and permits	510,921	442,978	442,361
Intergovernmental - Federal	271,860	427,159	304,747
Intergovernmental - Other	6,849,111	7,300,090	8,071,172
Charges for services	1,564,416	1,868,868	2,103,864
Use and admission charges	481,528	514,985	544,312
Investment earnings	1,684,822	1,917,870	2,592,270
Contributions and other revenues	3,197,444	4,207,836	3,565,358
Total revenue	40,189,046	42,767,170	45,977,753
Expenditures			
Current:			
General government	3,990,861	5,614,263	6,780,564
Public safety	8,116,770	8,425,944	8,043,681
Public works	3,619,069	3,546,082	3,732,670
Community development	57,569	71,474	85,066
Sanitation	2,045,979	2,050,794	1,990,302
Parks and recreation	3,129,166	3,065,359	3,124,882
Library	2,707,571	2,785,100	2,991,871
Airport	103,921	103,296	266,376
Transportation	-	-	-
Tax roll adjustment	-	-	-
Tax appeal defense	-	-	-
Other functions	3,447,020	3,127,035	2,680,214
Capital improvement	5,415,569	5,409,678	4,853,529
Debt service:			
Principal retirement	1,017,000	1,018,000	1,012,000
Interest and fiscal charges	438,820	397,032	351,614
Total expenditures	34,089,315	35,614,057	35,912,769
Excess of Revenue Over (Under) Expenditures	6,099,731	7,153,113	10,064,984
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	-	-	-
Bond issuance	-	-	-
Operating transfers in	6,469,204	5,021,447	6,565,221
Operating transfers out	(6,666,298)	(5,185,869)	(6,962,452)
Total other financing sources (uses)	(197,094)	(164,422)	(397,231)
Net Change in Fund Balances	5,902,637	6,988,691	9,667,753
Fund Balances - Beginning of year	12,114,817	18,017,454	25,006,145
Fund Balances - End of year	\$ 18,017,454	\$ 25,006,145	\$ 34,673,898
Debt service as a percentage of noncapital expenditures	5.32%	4.92%	4.50%

Notes:

- The City established a tax appeal reserve within the General Fund during fiscal year 1997-1998. See Notes to Financial Statements.
- During fiscal year 2001-2002, the Storm Water Management Fund was reclassified from an Enterprise Fund to a Special Revenue Fund.
- The City adopted GASB No. 34 during fiscal year 2002-2003. Beginning fund balances were restated to reflect the implementation.
- During fiscal year 2002-2003, the Transportation Fund was reclassified from a proprietary fund to a Special Revenue Fund. The 2002-2003 beginning fund balance has been restated to reflect the change.
- During fiscal year 2003-2004, the Special Assessment Revolving Fund was reclassified as an Internal Service Fund to properly reflect activity. The 2003-2004 beginning fund balance has been restated to reflect this change.
- 2004-2005 beginning fund balance has been restated to reflect prior year adjustment of \$9,228.
- The City changed its accounting for trust deeds resulting in a restatement of the beginning fund balance for 2007 (see Note 18 to the financial statements).

Source: City's Comprehensive Annual Financial Report

Changes in Fund Balances - Governmental Funds

	2001	2002	2003	2004	2005	2006	2007
\$	28,305,098	\$ 28,050,741	\$ 31,421,623	\$ 34,391,476	\$ 27,104,030	\$ 27,008,416	\$ 32,851,962
	1,060,968	1,111,918	1,201,478	1,209,761	1,144,431	1,153,613	1,245,590
	537,986	505,920	527,862	658,986	650,985	653,100	610,552
	366,752	523,370	513,973	654,038	456,900	1,085,841	952,997
	15,005,438	9,505,270	8,204,655	8,218,218	7,955,247	7,973,317	8,668,945
	2,307,346	2,553,474	1,526,453	1,674,908	2,959,423	3,180,973	3,402,244
	553,197	615,346	639,979	769,802	793,634	179,854	190,969
	3,481,038	1,790,821	1,090,371	1,223,337	1,531,159	2,794,357	3,314,070
	1,921,416	2,692,831	1,482,955	2,951,076	2,796,229	1,712,922	1,777,651
	<u>53,539,239</u>	<u>47,349,691</u>	<u>46,609,349</u>	<u>51,751,602</u>	<u>45,392,038</u>	<u>45,742,393</u>	<u>53,014,980</u>
	3,867,774	4,119,864	3,045,366	3,224,627	4,742,397	4,884,935	4,904,021
	8,113,997	8,450,083	9,027,665	9,534,824	10,794,036	11,563,868	12,072,103
	3,876,751	4,612,907	4,668,967	4,473,457	4,751,201	4,971,656	5,373,310
	94,535	140,788	693,194	855,595	532,548	820,803	938,099
	2,014,722	2,049,099	2,001,410	2,094,872	2,094,429	2,346,672	2,209,944
	3,265,055	3,341,863	3,403,096	3,595,455	3,726,384	3,322,203	3,419,246
	3,048,146	3,204,195	2,711,273	3,386,441	3,541,448	3,630,846	3,767,747
	151,400	151,719	160,330	184,629	185,202	176,711	282,341
	-	-	1,224,537	1,321,997	1,427,883	1,598,969	1,651,533
	-	-	-	-	-	-	9,184,008
	3,232,609	5,746,216	5,631,424	4,532,256	6,451,758	1,977,046	896,490
	3,024,167	3,365,541	2,989,362	3,874,156	4,108,730	4,470,025	4,877,761
	7,041,619	2,839,452	8,591,474	4,651,563	14,563,988	5,949,213	7,571,908
	1,097,000	1,241,000	125,000	135,000	135,000	75,000	75,000
	305,310	633,557	37,005	28,916	191,568	13,438	12,161
	<u>39,133,085</u>	<u>39,896,284</u>	<u>44,310,103</u>	<u>41,893,788</u>	<u>57,246,572</u>	<u>45,801,385</u>	<u>57,235,672</u>
	14,406,154	7,453,407	2,299,246	9,857,814	(11,854,534)	(58,992)	(4,220,692)
	-	-	239,390	240,038	215,411	184,721	82,817
	-	-	-	-	6,435,000	-	-
	5,993,632	5,731,387	5,653,166	8,845,871	11,328,105	9,465,578	6,928,776
	(7,503,127)	(6,219,692)	(7,625,336)	(10,799,360)	(13,266,164)	(12,478,678)	(8,515,227)
	<u>(1,509,495)</u>	<u>(488,305)</u>	<u>(1,732,780)</u>	<u>(1,713,451)</u>	<u>4,712,352</u>	<u>(2,828,379)</u>	<u>(1,503,634)</u>
	12,896,659	6,965,102	566,466	8,144,363	(7,142,182)	(2,887,371)	(5,724,326)
	<u>34,673,898</u>	<u>47,982,623</u>	<u>56,786,308</u>	<u>55,593,461</u>	<u>63,728,596</u>	<u>56,586,415</u>	<u>52,167,078</u>
\$	<u>47,570,557</u>	\$ <u>54,947,725</u>	\$ <u>57,352,774</u>	\$ <u>63,737,824</u>	\$ <u>56,586,414</u>	\$ <u>53,699,044</u>	\$ <u>46,442,752</u>
	4.44%	5.12%	0.46%	0.44%	0.77%	0.22%	0.18%

City of Midland, Michigan

Revenue Capacity

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Midland, Michigan

Taxable Value and Actual Value of Taxable Property Year Ended June 30

Taxable Value by Property Type:

Real property:

Tax Year	Residential	Commercial	Industrial	Personal Property	IFT	Total Taxable	Tax Rate (mills)	Total SEV	Taxable Value as a % of Actual
1997	\$ 675,481,900	\$ 179,139,100	\$ 211,076,500	\$ 956,887,900	\$ 145,478,130	\$2,168,063,530	11.60	\$2,174,477,530	99.71
1998	703,481,300	181,570,850	210,817,600	968,714,000	142,251,830	2,206,835,580	11.60	2,216,054,480	99.58
1999	726,144,500	189,808,100	216,895,700	1,011,985,200	163,321,930	2,308,155,430	12.12	2,340,610,630	98.61
2000	750,028,400	196,970,900	227,317,400	987,213,300	158,053,800	2,319,583,800	12.48	2,360,954,100	98.25
2001	786,634,000	205,720,100	228,985,300	1,018,557,300	145,765,400	2,385,662,100	12.00	2,437,284,700	97.88
2002	830,571,200	218,878,900	289,531,100	1,217,591,600	151,660,400	2,708,233,200	11.76	2,784,309,000	97.27
2003 (1)	855,523,000	228,369,000	875,691,600	434,258,000	145,920,900	2,539,762,500	12.90	2,819,138,400	90.09
2004	887,350,600	239,002,200	890,760,000	408,075,800	144,584,000	2,569,772,600	9.87	2,852,786,900	90.08
2005	921,024,100	248,085,800	878,201,900	384,728,900	121,477,400	2,553,518,100	9.79	2,811,712,100	90.82
2006	956,874,300	261,931,600	900,622,800	390,489,900	103,285,200	2,613,203,800	12.10	2,835,912,600	92.15

(1) Buildings on leased land were reclassified from personal property to real property.

Note: Under Michigan law, the revenue base is taxable value.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year.

Source: City Assessing Department

City of Midland, Michigan

Millage Rates - Direct City Taxes				Overlapping Taxes						
Tax Year	General Operating (1)	Debt	Total Direct Taxes*	Midland County	Bay County	Delta College	State Education	Bay/Arenac Intermediate School District	Midland Intermediate School District	School: Homestead Midland
1997	10.97	0.63	11.60 (2)	8.2874	9.6597	2.0427	6.0000	4.9656	1.1756	5.1762
1998	11.00	0.60	11.60 (2)	7.7254	9.9499	2.0427	6.0000	4.9656	1.1756	4.9211
1999	11.57	0.55	12.12 (2)	8.1955	9.9476	2.0427	6.0000	4.9596	1.1756	4.7248
2000	11.91	0.57	12.48 (2)	8.3155	10.9478	2.0427	6.0000	4.9596	1.1756	4.5237
2001	11.25	0.75	12.00 (2)	8.2655	10.9480	2.5427	6.0000	4.9594	1.1756	4.2526
2002	11.09	0.67	11.76 (2)	8.3055	10.9486	2.5427	6.0000	4.9594	1.1756	6.0970
2003	12.26	0.64	12.90 (2)	8.0255	10.9486	2.5427	5.0000	4.9568	1.1756	5.8585
2004	9.23	0.64	9.87 (3)	8.1455	11.0326	2.0427	6.0000	4.9458	1.1756	5.7692
2005	9.17	0.62	9.79	7.8255	10.9338	2.0427	6.0000	4.9425	1.1756	5.5909
2006	11.87	0.23	12.10	8.0555	9.7100	2.0427	6.0000	4.9233	1.1756	5.3284

* includes voter approved debt millage

Note: Tax rates are applied upon each \$1,000 of taxable value

- (1) City Charter authorizes 18 mills, but the State of Michigan Constitution (Headlee Amendment) restricts the maximum millage that may be levied by the City without a vote of our residents to 17.87 mills for General Operating.
- (2) The City of Midland property tax rate was increased in 1997/1998 through 2003/2004 for a special tax appeal millage.
- (3) The City of Midland property tax rate was decreased in 2004/2005 due, in part, to a reduction in the tax appeal millage.

Direct and Overlapping Property Tax Rates Year Ended June 30

Overlapping Taxes					Total Tax Rate					
School: Non-homestead Midland	School: Homestead Bullock Creek	School: Non-homestead Bullock Creek	School: Homestead Bay City	School: Non-homestead Bay City	Homestead Midland	Non-homestead Midland	Homestead Bay City	Non-homestead Bay City	Homestead Bullock Creek	Non-homestead Bullock Creek
18.0000	1.9900	19.9900	1.5000	19.5000	34.2819	47.1057	35.7680	53.7680	31.0957	49.0957
18.0000	1.9900	19.9846	1.5000	19.5000	33.4648	46.5437	36.0582	54.0582	30.5337	48.5283
18.0000	1.9900	19.9108	1.5000	19.5000	34.2586	47.5338	36.5699	54.5699	31.5238	49.4446
18.0000	7.0000	24.9208	1.4000	19.4000	34.5375	48.0138	37.8301	55.8301	37.0138	54.9346
18.0000	7.0000	24.9208	1.2000	19.2000	34.2364	47.9838	37.6501	55.6501	36.9838	54.9046
20.0000	7.0000	24.9208	1.2000	19.2000	35.8808	49.7838	37.4107	55.4107	36.7838	54.7046
20.0000	7.0000	24.9208	1.1000	19.1000	35.5023	49.6438	37.4481	55.4481	36.6438	54.5646
20.0000	7.0000	24.9208	1.1000	19.1000	33.0030	47.2338	34.9911	52.9911	34.2338	52.1546
20.0000	7.0000	24.9208	1.1000	19.0640	32.4247	46.8338	34.8090	52.7730	33.8338	51.7546
20.0000	7.0000	25.0000	2.3500	20.0247	34.7022	49.3738	37.1260	54.8007	36.3738	54.3738

City of Midland, Michigan

Principal Property Taxpayers Year Ended June 30, 2007

Taxpayer	2007 Taxable Value	Percentage of Total	1998 Taxable Value	Percentage of Total	1998 Rank
1 Midland Cogeneration Venture	\$ 671,286,900	26.58	\$ 553,184,600	26.79	1
2 Dow Chemical/Dow Agrosiences	350,549,900	13.88	402,767,500	19.51	2
3 Dow Corning	122,043,300	4.83	126,719,200	6.14	3
4 Consumers Power Company	17,210,000	0.68	26,762,100	1.30	4
5 Midland Mall, LLC	15,612,900	0.62	12,653,900	0.61	5
6 Quebecor World Inc	10,255,200	0.41	-	-	-
7 Meijer	7,857,100	0.31	6,066,400	0.29	8
8 IBM Credit LLC	7,424,600	0.29	-	-	-
9 Wells Fargo Bank NA	6,851,100	0.27	-	-	-
10 Wal-Mart Stores Incorporated	6,189,100	0.25	-	-	-
Total	<u>\$ 1,215,280,100</u>	<u>48.12%</u>	<u>\$ 1,128,153,700</u>	<u>54.64%</u>	

The individual values are for real and personal property owned by the designated taxpayer, but not including industrial facilities taxable amounts.

Source: City's Assessing Department

City of Midland, Michigan

Property Tax Levies and Collections Year Ended June 30

Fiscal Year Ended June 30	Taxes Levied for Fiscal Year (Original Levy)	Adjustments (*)	Total Adjusted Levy	Collected within the Fiscal Year of the Levy	Percentage of Original Levy Collected	Collections in Subsequent Years	Total Collections to Date	Percentage of Total Collections to Adjusted Tax Levy
1998	\$ 24,355,288	\$ (1)	\$ (1)	\$ 24,154,200	99.17	\$ (1)	\$ (1)	(1)
1999	24,817,502	(1)	(1)	24,705,051	99.55	(1)	(1)	(1)
2000	27,029,454	(46,751)	26,982,703	26,786,861	99.10	194,680	26,981,541	99.990
2001	28,005,663	(156,675)	27,848,988	27,763,188	99.13	(6,052)	27,757,136	99.670
2002	27,793,182	(1,226,224)	26,566,958	27,567,733	99.19	(1,091,071)	26,476,662	99.660
2003	28,804,136	(196,608)	28,607,528	28,488,644	98.90	32,580	28,521,224	99.698
2004	31,708,040	(192,382)	31,515,658	31,470,866	99.25	42,731	31,513,597	99.993
2005	24,169,118	(44,377)	24,124,741	23,967,130	99.16	156,435	24,123,565	99.995
2006	24,355,843	(71,398)	24,284,445	24,337,402	99.92	(55,909)	24,281,493	99.988
2007	29,962,104	-	29,962,104	29,948,998	99.96	-	29,948,998	99.956

(1) Not available

(*) Adjustments represent changes to the levy that occur subsequent to the fiscal year; any adjustments made during the fiscal year are reflected in the original levy column

Source: City Treasurer's Office

City of Midland, Michigan

Debt Capacity

These schedules contain trend information to help the reader assess the affordability of the City's current levels of outstanding debt, and the City's ability to issue additional debt in the future.

City of Midland, Michigan

	1998	1999	2000	2001
Governmental Activities				
General obligation bonds	\$ 970,000	\$ 900,000	\$ 820,000	\$ 735,000
Capital leases	2,124,090	2,039,044	1,953,211	1,849,806
Total governmental activities	3,094,090	2,939,044	2,773,211	2,584,806
Business-type Activities				
General obligation bonds	9,480,000	8,295,000	7,130,000	19,465,000
Revenue bonds	16,970,000	15,250,000	12,865,000	11,085,000
Total business-type activities	26,450,000	23,545,000	19,995,000	30,550,000
Total debt of the government	\$ 29,544,090	\$ 26,484,044	\$ 22,768,211	\$ 33,134,806
Total population (2)	40,600	40,650	40,700	41,685
Total debt per capita	\$ 728	\$ 652	\$ 559	\$ 795
Total taxable value	2,022,585,400	2,064,583,750	2,144,833,500	2,161,530,000
Ratio of total debt to taxable value	1.46%	1.28%	1.06%	1.53%

(1) Includes civic arena bonds of \$6,500,000 that were classified as governmental in 2005, but were reclassified as business-type in 2006

(2) Estimates provided by City Planning Department

Source: City Annual Financial Statements: Population data reported from demographics data

**Ratios of Outstanding Debt
Year Ended June 30**

2002	2003	2004	2005	2006	2007
\$ 645,000	\$ 520,000	\$ 385,000	\$ 6,750,000	(1) \$ 175,000	\$ 100,000
<u>1,745,505</u>	<u>1,807,537</u>	<u>1,651,488</u>	<u>1,498,454</u>	<u>1,330,510</u>	<u>1,164,223</u>
2,390,505	2,327,537	2,036,488	8,248,454	1,505,510	1,264,223
18,823,280	20,838,961	19,465,886	17,709,063	21,811,547	20,627,714
<u>9,825,000</u>	<u>8,500,000</u>	<u>7,110,000</u>	<u>5,775,000</u>	<u>4,620,000</u>	<u>3,465,000</u>
<u>28,648,280</u>	<u>29,338,961</u>	<u>26,575,886</u>	<u>23,484,063</u>	<u>26,431,547</u>	<u>24,092,714</u>
<u>\$ 31,038,785</u>	<u>\$ 31,666,498</u>	<u>\$ 28,612,374</u>	<u>\$ 31,732,517</u>	<u>\$ 27,937,057</u>	<u>\$ 25,356,937</u>
41,810	41,935	42,092	42,175	42,175	41,551
\$ 742	\$ 755	\$ 680	\$ 752	\$ 662	\$ 610
2,239,896,700	2,556,572,800	2,389,338,500	2,425,188,600	2,432,040,700	2,509,918,600
1.39%	1.24%	1.20%	1.31%	1.15%	1.01%

City of Midland, Michigan

Ratios of General Bonded Debt Outstanding Year Ended June 30

Fiscal Year	General Bonded Debt	Total General Bonded Debt Outstanding	Taxable Value	Debt as a Percentage of Taxable Value	Population	Debt Per Capita
1998	\$ 970,000	\$ 970,000	\$ 2,022,585,400	0.048	40,600 (2)	\$ 23.89
1999	900,000	900,000	2,064,583,750	0.044	40,650 (2)	22.14
2000	820,000	820,000	2,144,833,500	0.038	40,700 (2)	20.15
2001	735,000	735,000	2,161,530,000	0.034	41,685 (3)	17.63
2002	645,000	645,000	2,239,896,700	0.029	41,810 (2)	15.43
2003	520,000	520,000	2,556,572,800	0.020	41,935 (2)	12.40
2004	385,000	385,000	2,389,338,500	0.016	42,092 (2)	9.15
2005	6,750,000 (1)	6,750,000	2,425,188,600	0.278	42,175 (2)	160.05
2006	175,000	175,000	2,432,040,700	0.007	42,175 (2)	4.15
2007	100,000	100,000	2,509,918,600	0.004	41,551 (2)	2.41

(1) Includes civic arena bonds of \$6,500,000 that were classified as governmental in 2005, but were reclassified as business-type in 2006.

(2) Estimates provided by City Planning Department

(3) U.S. Bureau of the Census

Source: City's financial records

City of Midland, Michigan

Direct and Overlapping Debt Year Ended June 30, 2007

Governmental Unit	Debt Outstanding	Estimated % Applicable	Estimated Share of Overlapping Debt
Direct debt - City of Midland	\$ 24,192,714	100.00	\$ 24,192,714
Overlapping debt:			
Bay City School District	73,005,000	0.29	211,715
Bullock Creek School District	14,715,540	1.51	222,203
Bay County	26,740,897	0.17	45,398
Midland County	1,367,086	69.21	946,160
Bay-Arenac Intermediate School District	<u>315,000</u>	0.15	<u>473</u>
Total overlapping debt	<u>116,143,523</u>		<u>1,425,949</u>
Total	<u>\$ 140,336,237</u>		<u>\$ 25,618,663</u>

City of Midland, Michigan

	Fiscal Year			
	1998	1999	2000	2001
Debt limit	\$ 202,258,540	\$ 206,454,375	\$ 214,483,350	\$ 216,153,000
Total net debt applicable to limit	<u>8,554,000</u>	<u>7,536,000</u>	<u>6,524,000</u>	<u>13,587,000</u>
Legal debt margin	<u>\$ 193,704,540</u>	<u>\$ 198,918,375</u>	<u>\$ 207,959,350</u>	<u>\$ 202,566,000</u>
Total net debt applicable to the limit as a percentage of debt limit	4.23%	3.65%	3.04%	6.29%

Legal Debt Margin Calculation for Fiscal Year 2006

Debt Limit:

2007 State equalized valuation	\$ 2,835,912,600
Debt limit (10% of State equalized valuation) (1)	x <u>10.00%</u>

Total debt limit 283,591,260

Debt Applicable to Debt Limit:

Total bonded debt	\$ 24,192,714
Less deductions allowed by law - Revenue bonds	<u>3,465,000</u>

Total amount of debt applicable to debt limit 20,727,714

Legal debt margin **\$ 262,863,546**

Limitations on Borrowing

(1) Act 279, Public Acts of Michigan, 1909, as amended, and provisions of the City Charter state that net bonded indebtedness of the City shall not exceed 10 percent of the City's assessed valuation.

Bonds which are not required to be included in this computation of net indebtedness, according to said Act 279, are:

- A. Special Assessment Bonds
- B. Mortgage Bonds
- C. Motor Vehicle Highway Fund Bonds
- D. Revenue Bonds
- E. Bonds issued, or contracts or assessment obligation, incurred to comply with an order of the Water Resources Commission or a court of competent jurisdiction
- F. Other obligations incurred for water supply, sewage, and drainage or refuse disposal projects necessary to protect the public health by abating pollution

**Legal Debt Margin
Year Ended June 30**

Fiscal Year					
2002	2003	2004	2005	2006	2007
\$ 223,989,670	\$ 255,657,280	\$ 238,933,850	\$ 242,518,860	\$ 281,171,210	\$ 283,591,260
<u>12,857,968</u>	<u>13,688,377</u>	<u>12,514,532</u>	<u>17,600,438</u>	<u>22,604,063</u>	<u>20,727,714</u>
<u>\$ 211,131,702</u>	<u>\$ 241,968,903</u>	<u>\$ 226,419,318</u>	<u>\$ 224,918,422</u>	<u>\$ 258,567,147</u>	<u>\$ 262,863,546</u>
5.74%	5.35%	5.24%	7.26%	8.04%	7.31%

City of Midland, Michigan

Pledge-revenue Coverage Year Ended June 30

Fiscal Year	Water Revenue Bonds						
	Gross	Operating	Net Revenues	Debt service			Coverage
	Revenues	Expenses		Principal	Interest	Total	
1998	\$ 8,257,530	\$ 5,184,391	\$ 3,073,139	\$ 975,000	\$ 1,099,263	\$ 2,074,263	1.48
1999	8,923,318	5,522,026	3,401,292	1,120,000	1,033,063	2,153,063	1.58
2000	9,336,542	6,782,050	2,554,492	1,745,000	992,439	2,737,439	0.93
2001	8,937,836	5,932,598	3,005,238	1,105,000	587,603	1,692,603	1.78
2002	9,587,590	6,108,391	3,479,199	1,260,000	534,970	1,794,970	1.94
2003	9,732,581	5,924,678	3,807,903	1,325,000	475,294	1,800,294	2.12
2004	9,801,295	6,266,043	3,535,252	1,390,000	428,090	1,818,090	1.94
2005	10,307,652	7,165,252	3,142,400	1,335,000	328,336	1,663,336	1.89
2006	10,044,232	7,154,593	2,889,639	1,155,000	295,680	1,450,680	1.99
2007	10,479,515	7,786,003	2,693,512	1,155,000	237,930	1,392,930	1.93

City of Midland, Michigan

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

City of Midland, Michigan

Demographic and Economic Statistics Year Ended June 30

Fiscal Year	Population	Personal Income (in thousands)	Per Capita Personal Income (2)	Median Age (2)	Unemployment Rate (4)
1998	40,600 (1)	(3)	\$ 19,347	33.1	2.1
1999	40,650 (1)	(3)	19,347	33.1	1.9
2000	40,700 (1)	(3)	19,347	33.1	2.5
2001	41,685 (2)	(3)	26,818	36.2	3.2
2002	41,810 (1)	(3)	26,818	36.2	4.1
2003	41,935 (1)	(3)	26,818	36.2	4.8
2004	42,092 (1)	(3)	26,818	36.2	4.8
2005	42,175 (1)	(3)	26,818	36.2	4.4
2006	42,175 (1)	(3)	26,818	36.2	4.2
2007	41,551 (1)	(3)	26,818	36.2	4.5

(1) Estimates provided by City Planning Department

(2) U.S. Bureau of the Census

(3) Information not available

(4) Michigan Department of Labor and Economic Growth

City of Midland, Michigan

Principal Employers Year Ended June 30, 2007

Taxpayer		2007	Percentage	1998	Percentage	1998
		Employees	of Total	Employees	of Total	Rank
1	Dow Chemical Company	5,800	28.56	(1)	(1)	(1)
2	MidMichigan Medical Center	3,200	15.76	(1)	(1)	(1)
3	Midland Public Schools	1,700	8.37	(1)	(1)	(1)
4	Dow Corning Corporation	1,350	6.65	(1)	(1)	(1)
5	Meijer	600	2.95	(1)	(1)	(1)
6	City of Midland	490	2.41	(1)	(1)	(1)
7	Quebecor Printing/Pendell Inc	490	2.41	(1)	(1)	(1)
8	Chemical Bank & Trust Company	420	2.07	(1)	(1)	(1)
9	County of Midland	330	1.63	(1)	(1)	(1)
10	IBM	300	1.48	(1)	(1)	(1)

(1) Information not available

City of Midland, Michigan

Full-time Government Employees Year Ended June 30

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government:										
City Manager	5	5	5	5	5	5	5	4	4	4
City Clerk/(Treasurer)	9	9	9	9	9	9	9	4	4	4
City Treasurer	0	0	0	0	0	0	0	6	6	6
Assessing	4	4	5	5	6	6	6	6	5	5
City Attorney	2	2	2	2	3	3	3	3	3	3
Finance	6	6	7	7	7	7	7	7	7	8
Human Resources/Risk Management	5	5	5	5	5	5	5	5	5	5
Purchasing	1	1	1	1	1	1	1	1	1	1
Planning	5	5	5	6	6	6	6	6	6	6
Public safety:										
Police	51	50	50	50	50	52	52	52	51	51
Fire	46	46	46	46	46	46	46	46	46	46
Building inspection	8	8	8	8	8	8	8	7	7	7
Public works:										
Engineering	13	13	13	14	15	15	15	15	15	15
Public Works	43	43	43	44	44	46	45	44	44	44
Parks and recreation	32	33	33	33	35	36	36	33	33	34
Library	21	23	23	23	23	23	23	23	23	23
Downtown Development Authority	0	0	0	0	0	0	0	1	1	1
Transportation (Dial-A-Ride)	7	7	7	7	7	7	7	7	7	7
Landfill	8	8	8	8	8	8	8	8	8	8
Senior Housing:										
Washington Woods	9	9	9	8	8	8	8	8	8	7
Riverside Place	6	6	6	6	6	6	6	6	6	6
Wastewater	21	22	22	22	22	22	22	22	22	22
Water	32	32	34	35	36	36	36	36	36	36
Cable Communication	3	3	3	3	4	4	4	4	4	4
Equipment Revolving	15	15	15	15	15	15	15	15	15	15
Municipal Service Center	0	0	0	0	0	0	0	1	1	0
Data Processing	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>9</u>	<u>9</u>
Total	<u>360</u>	<u>363</u>	<u>367</u>	<u>370</u>	<u>377</u>	<u>381</u>	<u>380</u>	<u>377</u>	<u>377</u>	<u>377</u>

City of Midland, Michigan

Function/ Program	1998	1999	2000
General government:			
Building permits issued	NA	NA	2,414 (a)
Building inspections conducted	NA	NA	2,216 (a)
Public safety:			
Police:			
Physical arrests	NA	NA	NA
Traffic violations	7,480	9,201	8,864
Investigations/Complaints	16,705	17,042	15,872
Fire:			
Fire runs	103	129	147
Rescue/Medical	2,001	2,220	2,330
Hazardous	442	330	319
All other calls	742	820	762
Public works:			
Street maintenance (millions of dollars)	\$ 1.43	\$ 1.70	\$ 2.80
Sidewalk maintenance (thousands of dollars)	\$ 345.80	\$ 319.70	\$ 422.09
Refuse collected (compacted cubic yards)	59,423	54,480	57,415
Brush and heavy item (cubic yards)	39,700	46,551	48,160
Fall leaf collection (cubic yards)	46,800	49,200	59,600
Parks and recreation:			
Softball teams supported	301	321	315
Picnic reservations (sheltered and open area)	939	1,410	978
Library:			
Volumes in collection	246,647	250,604	256,287
Circulation (books borrowed)	826,554	800,845	802,826
Airport (take-offs and landings)	17,335	20,483	16,196
Landfill:			
Vehicle traffic	30,452	30,611	31,690
Tons per day	384	399	441
Senior housing apartment complexes:			
Washington Woods:			
Occupancy	100%	100%	100%
Percent turnover	19%	12%	23%
Average age of residents	NA	NA	NA
Riverside Place:			
Occupancy	100%	100%	100%
Percent turnover	21%	25%	29%
Average age of residents	NA	NA	NA
Public transportation (passengers served)	176,150	152,400	150,936
Sewer:			
Average daily sewage treatment (MGD)	9.70 (b)	6.76	6.21
Annual sewage treatment (MG)	1,765.40 (b)	2,467.40	2,266.70
Water - Finished water pumped (MG):			
Domestic	3,321.21	3,456.60	3,260.57
Industrial	4,756.51	4,578.60	4,684.26
Total	<u>8,077.72</u>	<u>8,035.20</u>	<u>7,944.83</u>

NA - Information not available

MG - Million gallons

MGD - Million gallons/day

(a) Ten months only - Sept/June 2000

(b) Six months only - Jan/June 1998

Sources: City records, city departments, department annual reports, and city website - www.midland-mi.org

Operating Information
Operating Indicators
Year Ended June 30

2001	2002	2003	2004	2005	2006	2007
3,614	3,513	3,427	3,244	3,341	3,127	2,798
5,236	4,831	4,309	4,409	6,314	5,642	6,156
1,313	1,237	1,261	1,522	1,477	1,406	1,256
9,973	8,473	8,994	7,989	6,598	7,719	6,013
15,011	15,245	15,557	15,049	15,243	15,554	15,749
129	97	83	81	96	92	83
2,621	2,456	2,422	2,432	2,570	2,683	2,944
344	360	365	397	315	577	406
738	628	663	820	870	930	930
\$ 2.50	\$ 2.50	\$ 2.20	\$ 1.79	\$ 1.85	\$ 2.13	\$ 2.23
\$ 400.00	\$ 460.00	\$ 309.00	\$ 346.82	\$ 346.34	\$ 362.82	\$ 372.61
59,220	53,320	54,690	62,190	62,994	64,316	58,840
44,730	50,715	56,230	67,975	57,605	70,946	66,766
54,200	61,060	67,685	63,496	70,160	67,872	60,224
330	385	340	333	334	334	327
964	896	931	997	700	758	622
255,300	266,501	272,145	269,182	275,089	282,281	280,100
811,841	846,511	865,806	825,496	822,203	796,540	810,133
13,421	17,375	14,717	13,415	14,699	10,847	10,257
30,284	31,981	28,840	36,499	35,730	35,907	41,192
417	468	419	513	466	467	635
100%	100%	100%	100%	100%	99%	100%
19%	23%	21%	22%	17%	23%	24%
NA	83	83	83	85	85	83
100%	100%	100%	100%	100%	100%	100%
26%	20%	24%	24%	23%	25%	32%
NA	84	84	85	86	85	86
151,622	147,475	146,404	144,992	154,553	161,497	153,670
7.02	7.81	5.24	7.44	6.46	7.22	8.05
2,562.30	2,850.70	1,912.60	2,715.60	2,375.90	2,635.30	2,937.85
3,328.19	3,372.26	3,401.72	3,358.12	3,503.34	3,501.33	3,520.67
4,445.38	4,928.16	4,935.65	4,569.25	4,566.05	4,320.86	4,175.89
<u>7,773.57</u>	<u>8,300.42</u>	<u>8,337.37</u>	<u>7,927.37</u>	<u>8,069.39</u>	<u>7,822.19</u>	<u>7,696.56</u>

City of Midland, Michigan

Function/ Program	1998	1999	2000	2001
Public safety:				
Police:				
Stations	1	1	1	1
Patrol units	14	14	14	14
Detective vehicles	4	4	4	4
SWAT van	1	1	1	1
Administrative and warrant officer vehicle	4	4	4	4
Fire:				
Stations	3	3	3	3
Fire response vehicles	6	6	6	6
Emergency response vehicles	1	1	1	1
Public works:				
Major streets (miles)	77	78	78	78
Local streets (miles)	142	144	146	147
State highways (miles)	16	16	16	16
Sidewalks (miles)	340	341	343	345
Traffic signals (city owned)	68	69	72	72
Refuse collection trucks	NA	13	13	13
Parks and recreation:				
Acreage	2,700	2,700	2,700	2,700
Regional park and recreation areas	6	6	6	6
Community parks	8	8	8	8
Block and district parks	60	61	61	61
Golf courses:				
9-hole municipal par-3	-	1	1	1
18-hole municipal	-	-	-	-
27-hole municipal (a)	1	1	1	1
Golf course clubhouse	1	1	1	1
Ice arena (b)	1	1	1	1
Swimming pool	2	1	1	1
Skateboard park	-	-	1	1
Spray ground facilities	-	-	-	-
Library branches	1	1	1	1
Airport:				
Runways	2	2	2	2
Terminal building (c)	1	1	1	1
City-owned hangars (leased)	14	14	14	14
Public transportation - Dial-A-Ride buses	14	14	14	14
Landfill:				
Current airspace (compacted cubic yards) (d)	793,027	608,734	426,204	253,048
Total future airspace (compacted cubic yards) (e)	10,131,109	9,946,816	9,764,286	9,591,130
Senior housing apartment complexes:				
Washington Woods (units)	214	214	214	214
Riverside Place (units)	150	150	150	150
Sewer:				
Sanitary sewers (miles)	178	181	182	183
Storm sewers (miles)	163	163	164	165
Treatment capacity (million gallons/day)	18	18	18	18
Water (f):				
Water mains (miles)	237	239	301	305
Fire hydrants	1,812	1,812	2,205	2,205
Storage capacity (million gallons)	14.41	14.41	14.41	14.41
Treatment plant capacity (million gallons/day):				
Potable water	28.8	28.8	28.8	28.8
Industrial grade water	19.2	19.2	19.2	19.2
Total	48.0	48.0	48.0	48.0

NA - Information not available

(a) In FY01/02, an additional nine-holes were added to the 27-hole course to create two 18-hole courses.

(b) A new 3-sheet arena on Fast Ice Drive opened in September 2005 replacing the old 2-sheet arena on East Collins.

(c) In FY05/06 a new 2,100 sq ft terminal building opened replacing a 1,200 sq ft terminal built in 1950.

(d) Current airspace = remaining airspace in currently constructed cells

(e) Total future airspace = remaining airspace in currently constructed cells as well as cells to be constructed in the future

(f) Raw water is pumped from Lake Huron by the Saginaw-Midland Municipal Water Supply Corporation, a facility owned jointly by the two cities. The raw water is then pumped to the two communities for treatment at their individual treatment plants.

Operating Information
Capital Asset Statistics
Year Ended June 30

2002	2003	2004	2005	2006	2007
1	1	1	1	1	1
14	14	14	14	14	14
4	4	4	4	4	4
1	1	1	1	1	1
4	4	4	4	4	4
3	3	3	3	3	3
6	6	6	6	6	6
1	1	1	1	1	1
78	78	78	78	78	78
148	152	152	152	154	154
16	16	16	16	16	16
346	346	347	351	352	353
72	72	72	72	73	72
13	13	13	13	13	13
2,700	2,700	2,700	2,700	2,700	2,700
6	6	6	8	8	8
8	8	8	7	7	7
61	61	61	55	55	55
1	1	1	1	1	1
2	2	2	2	2	2
-	-	-	-	-	-
1	2	2	2	2	2
1	1	1	1	1	1
1	1	1	1	1	1
1	1	1	1	1	1
1	1	1	2	2	2
1	1	1	1	1	1
2	2	2	2	2	2
1	1	1	1	1	1
14	14	14	14	14	14
14	14	14	14	14	15
231,191	40,410	1,496,495	1,158,830	1,126,046	905,764
9,569,273	9,378,492	9,262,950	8,925,285	8,965,124	8,740,847
214	214	214	214	214	214
150	150	150	150	150	150
189	191	194	195	195	196
166	167	168	170	171	172
18	18	18	18	18	18
306	306	306	306	308	330
2,350	2,558	2,558	2,701	2,758	2,928
14.41	14.41	14.41	14.41	14.41	13.75
28.8	28.8	28.8	28.8	28.8	28.80
19.2	19.2	19.2	19.2	19.2	19.2
48.0	48.0	48.0	48.0	48.0	48.0

City of Midland, Michigan

**Federal Awards
Supplemental Information
June 30, 2007**

City of Midland, Michigan

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Midland, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Midland, Michigan as of and for the year ended June 30, 2007, which collectively comprise City of Midland, Michigan's basic financial statements, and have issued our report thereon dated December 7, 2007. Those basic financial statements are the responsibility of the management of City of Midland, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Midland, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards, reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards, and supplemental schedules related to the Transportation Fund are presented for the purpose of additional analysis and are not required parts of the basic financial statements. Except for the schedule of mileage data, the information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the schedule of mileage data which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

December 7, 2007

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor and City Council
City of Midland, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Midland, Michigan as of and for the year ended June 30, 2007, which collectively comprise City of Midland, Michigan's basic financial statements, and have issued our report thereon dated December 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Midland, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Midland, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Midland, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

To the Honorable Mayor and City Council
City of Midland, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Midland, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Midland, Michigan's response to the material weakness identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moreau, PLLC

December 7, 2007

Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with
OMB Circular A-133

To the Honorable Mayor and City Council
City of Midland, Michigan

Compliance

We have audited the compliance of City of Midland, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The major federal programs of City of Midland, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Midland, Michigan's management. Our responsibility is to express an opinion on City of Midland, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Midland, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Midland, Michigan's compliance with those requirements.

In our opinion, City of Midland, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

To the Honorable Mayor and City Council
City of Midland, Michigan

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

December 10, 2007

City of Midland, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Approved Award Amount	Expenditures
U.S. Department of Housing and Urban Development - Community Development Block Grant:			
B-04-MC-26-0037	14.218	\$ 303,000	\$ 128,647
B-05-MC-26-0037	14.218	286,373	<u>208,869</u>
Total U.S. Department of Housing and Urban Development			337,516
U.S. Department of Transportation - Passed through Michigan Department of Transportation:			
Section 5311 (formerly Section 18) Program Grants:			
2002-0068/Z9 - (10/05 - 9/06)	20.509	228,555	61,016
2007-259/Z1 - (10/06 - 9/07)	20.509	251,480	<u>219,745</u>
Total Section 5311 grants			280,761
Section 5309 Program Grants:			
Section 5309 Capital Grants 2002-0068/Z7	20.500	110,072	23,331
Section 5309 Capital Grants 2002-0068/Z5	20.500	121,472	<u>108,751</u>
Total Section 5309 grants			<u>132,082</u>
Total U.S. Department of Transportation			412,843
U.S. Department of Justice - Office of Justice Programs - Bullet-proof Vest Program - MI State Police:			
Grant ID # 04021594 (2004)	16.607	7,862	203
Grant ID # 05026423 (2005)	16.607	1,800	<u>-</u>
Total U.S. Department of Justice			203
Federal Emergency Management Authority - Fire Operations and Firefighter Safety:			
EMW-2005-FG-19328	97.044	53,620	6,865
EMW-2006-FG-17122	97.044	82,682	<u>35,401</u>
Total Federal Emergency Management Authority			<u>42,266</u>
Total Federal Awards			<u><u>\$ 792,828</u></u>

City of Midland, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal revenue per financial statements (includes all funds)	\$ 952,997
Add program income classified as federal expenditures	115,709
Less state transportation grant included above	(293,159)
Less revenue recognized in the current period on prior year expenditures	(112)
Add expenditures in the current period where revenue is deferred in accordance with GASB 33	<u>17,393</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 792,828</u></u>

City of Midland, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Midland, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Program	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 126,846

City of Midland, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA	
Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grant
20.509	Department of Transportation Section 5311 Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Midland, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings

Reference Number	Findings
2007-I	<p>Finding Type - Material weakness</p> <p>Criteria - Any financial statement adjustments identified by the auditors are required to be reported, unless inconsequential.</p> <p>Condition - City of Midland, Michigan (the "City") has several adjustments that are made to the accounting records only infrequently as part of the annual external reporting process. These adjustments are complex, and some have required auditor involvement in evaluating and adjusting the records.</p> <p>Context - The auditors were involved in making adjustments for items such as the portion of fund balance reported as reserved for property tax appeal, the impact on the property tax appeal on the Act 425 tax-sharing obligation, and restricted net assets in the golf course.</p> <p>Effect - The auditors assisted in evaluating and adjusting some of the year-end closing accruals.</p> <p>Cause - The general ledger adjustments that take place annually tend to be quite complex, particularly those related to the property tax appeal.</p> <p>Recommendation - The auditors are happy to assist in reviewing the more unusual, nonrecurring transactions. The City could consider implementing additional internal review procedures for these types of transactions during its year-end financial closing/reporting process.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City agrees that there are some complex transactions that are appropriately considered only at year end and, therefore, more difficult to account for. It will consider whether additional internal review procedures might be appropriate.</p>

Section III - Federal Program Audit Findings

None

City of Midland, Michigan

Summary Schedule of Prior Audit Findings Year Ended June 30, 2007

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
2006	2006-1	Internal control deficiency and material noncompliance. The City submitted the CAPER without sufficient review to detect reporting errors.	14.218	None	The City has now implemented a procedure to ensure that the CAPER undergoes thorough review prior to submission to HUD.

**Supplemental Information
Transportation Fund (Dial-A-Ride)**

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) Schedule of Operating Revenues Year Ended June 30, 2007

	July 1, 2006 to September 30, 2006	October 1, 2006 to June 30, 2007	Total
Operating Revenues			
Customer fares	\$ 25,233	\$ 93,729	\$ 118,962
Contractual	<u>2,599</u>	<u>17,530</u>	<u>20,129</u>
Total operating revenues	<u>\$ 27,832</u>	<u>\$ 111,259</u>	<u>\$ 139,091</u>

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) Schedule of Operating Expenses Year Ended June 30, 2007

	Operations	Maintenance	General and Administrative	Total
Labor:				
Operators' salaries and wages	\$ 698,213	\$ -	\$ -	\$ 698,213
Other salaries and wages	-	-	70,257	70,257
Dispatchers' salaries and wages	70,236	-	-	70,236
Fringe benefits	258,127	-	23,832	281,959
Services:				
Advertising fees	-	-	3,240	3,240
Audit fees	-	-	1,000	1,000
Other	-	188,038	139,182	327,220
Materials and supplies consumed:				
Fuel and lubricants	138,725	-	-	138,725
Other	5,294	-	-	5,294
Utilities - Telephone	272	-	-	272
Casualty and liability costs -				
Premiums for public liability and property damage insurance	26,830	-	-	26,830
Travel, meetings, and training	1,514	-	312	1,826
Leases and rentals	26,461	-	-	26,461
Capital outlay	174,662	-	-	174,662
Total operating expenses	<u>\$ 1,400,334</u>	<u>\$ 188,038</u>	<u>\$ 237,823</u>	<u>\$ 1,826,195</u>

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) Schedule of Nonoperating Revenues Year Ended June 30, 2007

	July 1, 2006 to September 30, 2006	October 1, 2006 to June 30, 2007	Total
Federal Operating Grants:			
U.S. DOT Operating Grant - Section 5311:			
Contract 2002-0068/Z9/RI (10/05 - 9/06)	\$ 61,016	\$ -	\$ 61,016
Contract 2007-259/ZI (10/06 - 9/07)	-	219,745	219,745
Total U.S. DOT Operating Grant	61,016	219,745	280,761
Section 5309 Capital Grants - Contract 2002-0068/Z7	-	132,082	132,082
Prior grant year audit adjustments	-	112	112
Total federal operating grants	61,016	351,939	412,955
State of Michigan Operating Grants:			
Local bus operating assistance (Act 51)	142,699	433,333	576,032
Capital grant MI-02-0069/Z7	-	33,021	33,021
RTAP training grant	750	-	750
Prior grant year audit adjustments	-	75,610	75,610
Total state operating grants	143,449	541,964	685,413
City of Midland General Fund	158,997	402,649	561,646
Other nonoperating income	250	(3,436)	(3,186)
Total nonoperating revenues	<u>\$ 363,712</u>	<u>\$ 1,293,116</u>	<u>\$ 1,656,828</u>

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) **Schedule of Computation** **Net Eligible Cost of General Operations** **Year Ended June 30, 2007**

	Federal Section 5311		State Operating Assistance	
	2002-0068/Z9			
	July 1, 2006	2007-259/Z1	July 1, 2006	
	to	October 1, 2006	to	October 10, 2006
	September 30,	to	September 30,	to
	2006	June 30, 2007	2006	June 30, 2007
Expenses:				
Labor	\$ 165,659	\$ 673,047	\$ 165,659	\$ 673,047
Fringe benefits	57,688	224,271	57,688	224,271
Services	88,244	243,216	88,244	243,216
Materials and supplies	39,904	104,115	39,904	104,115
Utilities	70	202	70	202
Casualty and liability cost	-	26,830	-	26,830
Travel, meetings, and training	1,176	650	1,176	650
Leases and rentals	6,176	20,285	6,176	20,285
Capital outlay	-	174,662	-	174,662
Total eligible expenses	358,917	1,467,278	358,917	1,467,278
Less ineligible expenses -				
Capital outlay	-	174,662	-	174,662
Net eligible expenses	<u>\$ 358,917</u>	<u>\$ 1,292,616</u>	<u>\$ 358,917</u>	<u>\$ 1,292,616</u>
Calculated reimbursement	\$ 61,016	\$ 219,745	\$ 139,568	\$ 499,208
Limited to cap of	61,016	219,745	139,568	499,208
Adjusted grant accrued/received	61,016	219,745	139,568	499,208

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) Schedule of Mileage Data Year Ended June 30, 2007

	Public Transit Mileage
Demand - Response	
First quarter	118,539
Second quarter	128,617
Third quarter	130,669
Fourth quarter	125,276
Total demand - Response	<u><u>503,101</u></u>

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) Schedule of Property and Equipment Year Ended June 30, 2007

Vehicles	\$ 946,210
Office furniture and equipment	17,547
Shelters	15,940
Radio and antennae	<u>32,968</u>
Total property and equipment	1,012,665
Less accumulated depreciation	<u>(621,385)</u>
Net property and equipment	<u><u>\$ 391,280</u></u>

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) **Schedule of Expenditures of State Awards** **Michigan Department of Transportation** **Year Ended June 30, 2007**

Program Title	(Accrued) Deferred Revenue July 1, 2006	Current Year			(Accrued) Deferred Revenue June 30, 2007
		Program Expenditures	State Receipts	Adjustments	
Operating assistance - 2003-2004	\$ 8,546	\$ -	\$ 6,936	\$ (15,482)	\$ 17,092
Operating assistance - 2004-2005	(46,591)	-	68,674	(22,083)	-
Operating assistance - 2005-2006	(65,875)	139,568	142,699	4,605	(67,349)
Operating assistance - 2006-2007	-	499,208	455,265	-	(43,943)
Capital assistance - 2002-0068/Z5	-	5,828	-	-	(5,828)
Capital assistance - 2002-0068/Z7	-	27,193	21,685	-	(5,508)
Total	<u><u>\$ (103,920)</u></u>	<u><u>\$ 671,797</u></u>	<u><u>\$ 695,259</u></u>	<u><u>\$ (32,960)</u></u>	<u><u>\$ (105,536)</u></u>

December 7, 2007

To the Honorable Mayor and
Members of the City Council
City of Midland
333 West Ellsworth
Midland, Michigan 48640

Dear Mayor and City Council Members:

We recently completed our audit of the financial statements of the City of Midland, Michigan for the year ended June 30, 2007. In addition to the audit report, we offer the following comments for your review and consideration.

Retiree Health Care

This is just a brief reminder that effective July 1, 2008, the City will be expected to measure the cost of retiree health care over the working life of its employees, rather than as it is paid. The City has obtained a preliminary actuarial valuation of the accrued liability as of December 31, 2005. Based on this, the City has been setting aside funds for retiree health care with MERS, and has accumulated approximately \$12,000,000 at June 30, 2007. For the year ending June 30, 2008, the City is making significant additional contributions into the plan, and anticipates to be fully funding the annual recommended contribution in 2008/2009. It will be important for the City to obtain updated actuarial valuations to ensure that it is staying current with the necessary funding requirements.

To provide local governments with additional funding options, legislation was introduced in 2006 which would allow for bonding as a funding tool. The legislation was passed by the Michigan legislature and vetoed by the governor. It was expected that the legislation was going to be reconsidered in 2007.

Audit Standards Changes - This Year and Next

The American Institute of Certified Public Accountants Audit Standards Board recently issued several new Statements on Auditing Standards that significantly affect the audit process. The first two changes impacted the current audit of the year ended June 30, 2007; the other changes will have a much more significant impact, and will be applicable next year.

The current year's audit changes impacted audit documentation procedures and communications of internal control deficiencies to the City Council. Under these new rules, any internal control deficiencies that could result in more than a remote likelihood of an error in the financial statements (unless clearly inconsequential) are now communicated to you in writing (included in the single audit report). The purpose of this new rule is to make you aware of potential issues before they arise to the level of material weaknesses.

For next year's audit, eight new auditing standards have been issued that require significant changes in how audits are performed. Similar to the Sarbanes-Oxley rules that impacted publicly held corporations, these rules are intended to help audited entities strengthen their internal controls. We have recently put on a seminar explaining these new rules, which was attended by your staff. In brief, these new rules require all auditors to:

- Obtain a deeper understanding of the design and operation of internal control
- Assess the effectiveness of internal control
- Obtain corroborating evidence that the understanding is correct and the assessment is appropriate (i.e., inspection of documents, observation of procedures, or inquiry)
- Consider "what could go wrong" in the financial statement process (evaluate the risks of financial statement errors)
- Link the results to specific further audit procedures
- Communicate a summary of the results of the auditor's work to those charged with governance (the City Council)

As you can see, auditors will spend significantly more time working with all aspects of your internal control (accounting processes, information technology general and application controls, and traditional internal control procedures). The intent of these new rules is to help audited organizations deal with their internal control. The thought process is that internal control is critically important to any organization, and it would be better served if the annual audit focused significant work on its effectiveness. These new rules are not limited to the public sector - they will apply to any organization that obtains an audit (non-profit organization, private company, etc.).

These new rules will impact audited organizations in two ways: your finance staff will incur more time and effort in preparation for the audit, and the audit process will require additional time. Plante & Moran has spent the last six months creating the new audit forms and documents that will be needed to meet these new rules. The internal control and accounting process documentation documents are currently being shared with your finance staff.

Legislative Matters with Financial Impact to the City

State-shared Revenue

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not yet been announced, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is likely that revenue sharing for fiscal year 2007/2008 will more than likely be tied to fiscal year 2006/2007 funding levels. For the near-term future, the following factors will still impact the ability of the State to maintain the level of state-shared revenue:

- The statutory portion of revenue sharing sunsets on September 30, 2007. It has been temporarily extended, but the distribution (or allocation) formulas will need to be worked on to make distributions equitable.
- Counties will be coming back into the state-shared revenue formula, which might reduce amounts available to cities, unless it is fully funded at statutory levels.
- Michigan's tax structure has changed drastically in the last few months (with the Michigan business tax, and the (perhaps to be repealed) sales tax on services). However, there were indications that the size of the deficit could grow in the 2008/2009 fiscal year, and these new taxes may or may not cover that budget.

We agree with your administration's decision to be conservative in its estimation of the statutory portion of state-shared revenues as this line item in the State's budget remains vulnerable. We will continue to update the City as developments occur.

Personal Property Tax

Over the last seven years, the State's personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in an approximate drop in property tax revenue of 10 percent. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities (resulting in an approximately 30 percent revenue loss to local units of government). Also, the Michigan Supreme Court in *WPW Acquisition Co vs. City of Troy* ruled that the Proposal A cap prevents assessors from increasing the taxable value of commercial rental property above the rate of inflation using the occupancy methodology even when reductions in taxable value were previously granted due to a decrease in occupancy.

The new Michigan business tax also provides more personal property tax relief to business taxpayers (see details below). Even with this most recent relief provided in June 2007 through the MBT, further reductions to personal property tax remain part of the State's tax structure discussions. Personal property taxes are a significant revenue source to many local governments. For the City, personal property tax represents approximately 15 percent of its tax base. If the State's new business tax structure provides personal property tax relief, the question is will local governments be held harmless by the State and to what extent? The governor's tax plan as introduced proposes to change the property tax system to mitigate the impact of the WPW case. A similar attempt to make this correction occurred in 2005 and 2006 with no success.

New Michigan Business Tax

As previously indicated, the new Michigan business tax (MBT) was approved by the legislature in June 2007 and replaces the single business tax (SBT) which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT

While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. The new MBT imposes two taxes - a modified gross receipts tax and a business income tax. The modified gross receipts tax is imposed at .8 percent on a tax base composed of gross receipts less certain purchases. The business income tax will be imposed at a rate of less than 5 percent on business income. The MBT provides for new investment, compensation, and research and development credits to businesses. The MBT also allows certain qualified small businesses to opt out of the MBT and pay a straight 1.8 percent tax on adjusted business income.

More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes - specifically from the State Education Tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the 6 SET mills and the 18 schools operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. For local governments that have enacted an administrative fee on tax collections, they will likely see a decrease in the administration fees that have traditionally been collected. Also, for those local governments with tax increment financing authorities that continue to have existing eligible obligations outstanding and are therefore allowed to capture school taxes (to the extent of these eligible obligations), the personal property tax exemptions on school millages will likely decrease the amount of school taxes available to capture.

To the Honorable Mayor and
Members of the City Council
City of Midland

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December 7, 2007

Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees, impact on school dollars available for capture for certain tax increment financing authorities, and property classifications) that are the most directly impacted by the new MBT.

We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

In addition to the comments in this letter, our observations and comments regarding the City of Midland's internal control, include one material weakness that we identified, are reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. The one material weakness noted in that report relates to adjustments to various accounts for year-end reporting. This report is included in the supplementary schedule of federal financial assistance (the single audit report), and we recommend that the matters we have noted there receive your careful consideration.


We would like to thank David Keenan, Margaret Maday, Dana Strayer, and the entire City staff for their assistance during the audit. We appreciate the opportunity to continue to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



Joseph C. Heffernan



R. Jackson Richardson